

RURAL WATER DISTRICT NO. 2  
Clay County, Kansas

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT  
For the Years Ended December 31, 2011 and 2010

CLUBINE AND RETTELE, CHARTERED  
CERTIFIED PUBLIC ACCOUNTANTS  
Salina, Kansas

RURAL WATER DISTRICT NO. 2  
Clay County, Kansas

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INDEPENDENT AUDITORS' REPORT

The Members and Board of Directors  
Rural Water District No. 2  
Clay County, Kansas

We have audited the accompanying balance sheets of Rural Water District No. 2, as of December 31, 2011 and 2010, and the related statements of income, expenses, changes in members' equity and cash flows, for the years then ended. These financial statements are the responsibility of the Rural Water District No. 2'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*, prescribed by the Division of Accounts and Reports of the State of Kansas. 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 Rural Water District No. 2, as of December 31, 2011 and 2010 and the results of its operations, the changes in its members' equity and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. However, Rural Water District No. 2 has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements

Clubine and Rettele, Chartered

Salina, KS 67401  
February 25, 2012

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RURAL WATER DISTRICT NO. 2  
Clay County, Kansas

Exhibit I

BALANCE SHEETS  
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current Assets		
Cash	\$ 70,226.01	\$ 56,504.93
Accounts Receivable	15,692.45	15,490.53
Certificates of Deposit	259,862.92	243,206.39
Accrued Interest Receivable	606.43	702.58
Prepaid Insurance	<u>6,473.26</u>	<u>6,508.11</u>
Total Current Assets	<u>352,861.07</u>	<u>322,412.54</u>
Property and Equipment		
Water Transmission and Distribution System	2,140,228.24	2,132,428.24
Equipment	<u>197,269.49</u>	<u>197,269.49</u>
	2,337,497.73	2,329,697.73
Deduct - Accumulated Depreciation	<u>1,209,763.76</u>	<u>1,163,385.70</u>
Total Property and Equipment	<u>1,127,733.97</u>	<u>1,166,312.03</u>
Other Assets		
Bond Reserve	25,601.32	25,601.32
Capitalized Interest, net	13,260.30	14,215.71
Bond Issuance Cost, net	2,833.16	2,833.16
Capitalized Legal Costs, net	<u>7,559.38</u>	<u>8,140.86</u>
Total Other Assets	<u>49,254.16</u>	<u>50,791.05</u>
Totals	<u><u>\$ 1,529,849.20</u></u>	<u><u>\$ 1,539,515.62</u></u>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts Payable	\$ 239.13	\$ 7,633.91
Accrued Interest	3,629.74	3,768.25
Loans Payable	9,052.31	8,718.73
Taxes Payable	<u>1,690.20</u>	<u>1,686.51</u>
Total Current Liabilities	14,611.38	21,807.40
Long-term Liabilities		
Loans Payable	<u>219,422.24</u>	<u>228,474.55</u>
Total Liabilities	234,033.62	250,281.95
Members' Equity - Exhibit III	<u>1,295,815.58</u>	<u>1,289,233.67</u>
Totals	<u><u>\$ 1,529,849.20</u></u>	<u><u>\$ 1,539,515.62</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 2  
Clay County, Kansas

Exhibit II

STATEMENTS OF INCOME  
For the Years Ended December 31, 2011 and 2010

	2011	2010
Income		
Water Sales	\$ 205,561.41	\$ 198,353.78
Installation	6,131.74	-
Other Income	2,019.03	6,581.10
	213,712.18	204,934.88
Expenses		
Salaries	65,265.25	63,998.76
Interest Expense	8,646.44	5,547.23
Utilities	11,819.72	10,483.55
Repairs and Maintenance	21,852.35	15,970.08
Chemicals	3,878.95	4,719.72
Telephone	1,429.64	1,491.88
Payroll Taxes	4,992.61	4,891.18
Insurance	7,098.85	7,296.62
Office Supplies	3,099.18	1,867.43
Other Professional Fees	11,330.52	10,894.93
Depreciation	46,378.06	44,381.05
Amortization	1,536.89	1,496.89
Machine hire	7,820.50	7,200.01
Miscellaneous	2,995.88	3,804.90
Mileage	19,845.03	19,376.70
Contract Labor	4,506.50	5,512.50
	222,496.37	208,933.43
Total Expenses		
	(8,784.19)	(3,998.55)
Net Loss From Operations		
Other Income		
Interest Income	4,866.10	5,128.51
	4,866.10	5,128.51
Net Income (Loss)	\$ (3,918.09)	\$ 1,129.96

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 2  
Clay County, Kansas

Exhibit III

STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Balance, Beginning of Year	\$ 1,289,233.67	\$ 1,284,603.71
Add - Sale of Benefit Units	10,500.00	3,500.00
Add - Net Income (Loss) - Exhibit II	<u>(3,918.09)</u>	<u>1,129.96</u>
Balance, End of Year	<u>\$ 1,295,815.58</u>	<u>\$ 1,289,233.67</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 2  
Clay County, Kansas

Exhibit IV

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Cash received from customers	\$ 213,510.26	\$ 203,352.42
Interest received	4,962.25	5,210.52
Cash paid to suppliers and others	(173,291.22)	(150,891.57)
Interest Paid	(8,784.95)	(5,846.32)
Net Cash Provided by Operating Activities	36,396.34	51,825.05
Cash Flows From Investing Activities		
Water construction costs	(7,800.00)	(90,565.52)
Purchase of equipment	-	(3,970.00)
Sale of benefit units	10,500.00	3,500.00
Net Cash Provided (Used) by Investing Activities	2,700.00	(91,035.52)
Cash Flows From Financing Activities		
Payments to retire note	(8,718.73)	(18,819.88)
Bond reserve	-	(25,601.32)
Loan origination cost	-	(3,200.16)
Proceeds from issuing notes	-	116,727.27
Net Cash Provided (Used) by Financing Activities	(8,718.73)	69,105.91
Net Increase in Cash	30,377.61	29,895.44
Cash at Beginning of Year	299,711.32	269,815.88
Cash at End of Year	\$ 330,088.93	\$ 299,711.32

RECONCILIATION OF NET INCOME (LOSS)  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Income (Loss) - Exhibit II	\$ (3,918.09)	\$ 1,129.96
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	47,914.95	45,877.94
Increase in accounts receivable	(201.92)	(1,582.46)
Decrease in interest receivable	96.15	82.01
Decrease (Increase) in prepaid insurance	34.85	(173.38)
Decrease in accrued interest	(138.51)	(299.09)
Increase in taxes payable	3.69	379.12
Increase (Decrease) in accounts payable	(7,394.78)	6,410.95
Total Adjustments	40,314.43	50,695.09
Net Cash Provided by Operating Activities	\$ 36,396.34	\$ 51,825.05

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

RURAL WATER DISTRICT NO. 2  
Clay County, Kansas

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010

1. Rural Water District No. 2, Clay County, Kansas, (the District) was organized under Section 82a – 612 et seq. of Kansas Statutes annotated, as amended, for the purpose of providing a water supply system for the landowners within the area of the District. The District is a quasi-municipality and the following is a summary of its significant accounting policies:

- A. The District's policy is to prepare its financial statements on the accrual basis. Under this basis, income is recognized when earned, and expenses are recognized when incurred.
- B. The property and equipment are reported at cost. Depreciation of property and equipment is computed using the straight-line method over the estimated useful life of each asset. The estimated useful lives of the assets range from five to fifty years.
- C. Cash in checking, money market, and certificates of deposits are considered to be cash and cash equivalents. The District considers these funds available for current operations. These accounts can be summarized at December 31, as follows:

	2011	2010
Operating	\$ 3,496.94	\$ 4,792.03
Money Market	66,729.07	51,712.90
Total Operating	70,226.01	56,504.93
 Certificates of Deposit	 259,862.92	 243,206.39
 Totals	 \$ 330,088.93	 \$ 299,711.32

- D. The District is exempt from federal and state income taxes.
- E. Accounts Receivable is reported at net realizable value. Bad debts are directly written to expense when management considers them uncollectible. No allowance for bad debts has been recorded. The direct write-off method is not acceptable for the purposes of generally accepted accounting principles. This departure does not result in a material misstatement of the financial statements.
- F. The District has a vacation policy that only applies to the Operator. In this policy, the Operator is allowed two weeks of paid vacation based on a rate of 25 hours per week. There was not any unused vacation. The District does not have a sick leave policy.

2. The Certificates of Deposit at December 31, 2011, consist of the following:

<u>Bank</u>	<u>Number</u>	<u>Interest</u>	<u>Current Value</u>
United Bank and Trust	1701316062	3.46%	\$ 66,523.11
United Bank and Trust	1701321184	1.25%	53,036.02
Union State Bank	0068768	0.75%	50,000.00
Clay County National Bank	22688423	1.21%	50,303.79
Clay County National Bank	22688424	0.80%	40,000.00
 Total			 \$259,862.92

RURAL WATER DISTRICT NO. 2  
Clay County, Kansas

NOTES TO FINANCIAL STATEMENTS (CONT.)  
December 31, 2011 AND 2010

The Certificates of Deposit at December 31, 2010, consist of the following

<u>Bank</u>	<u>Number</u>	<u>Interest</u>	<u>Current Value</u>
United Bank and Trust	1701316062	3.46%	\$ 64,273.52
United Bank and Trust	1701319556	1.55%	52,389.48
Union State Bank	0067404	1.20%	44,605.04
Clay County National Bank	22688422	1.55%	45,350.39
Clay County National Bank	22688430	1.75%	<u>36,587.96</u>
Total			<u>\$243,206.39</u>

3. At year-end, the carrying amount and bank balance of the Clay County Rural Water District No. 2 deposits, including certificates of deposit, was \$330,088.93. The bank balances were fully insured as of December 31, 2011 and 2010.
4. The District's management has evaluated events and transactions occurring after the statement of financial position date through February 25, 2012. The aforementioned date represents the date the financial statements were available to be issued.

CLAY COUNTY RURAL WATER DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS (Cont.)

December 31, 2011

Note 5 Long-Term Debt

Changes in long-term liabilities for the municipality for the fiscal year ended December 31, 2011, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
Long-Term Debt: KPWSLF PROJ. NO. 2530	3.44%/ .35%	10/8/2008	\$ 256,013.16	8/1/2029	\$ 237,193.28	\$ -	\$ 8,718.73	\$ -	\$ 228,474.55	\$ 8,085.17

Changes in long-term liabilities for the municipality for the fiscal year ended December 31, 2010, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
φ Long-Term Debt: KPWSLF PROJ. NO. 2530	3.44%/ .35%	10/8/2008	\$ 256,013.16	8/1/2029	\$ 139,285.89	\$ 116,727.27	\$ 18,819.88	\$ 97,907.39	\$ 237,193.28	\$ 5,450.71

Current estimated maturities of long-term debt and interest for the next five years and in five-year increments through maturity are as follows:

	Year								
	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2029	Total
Principal:									
KPWSLF PROJ. NO. 2530	\$ 9,052.31	\$ 9,398.64	\$ 9,758.22	\$ 10,131.57	\$ 10,519.18	\$ 58,949.65	\$ 71,123.01	\$ 49,541.97	\$ 228,474.55
Interest:									
KPWSLF PROJ. NO. 2530	7,782.40	7,468.05	7,141.68	6,802.81	6,450.99	26,487.96	15,438.80	3,029.05	80,601.74
Service Fee:									
KPWSLF PROJ. NO. 2530	791.81	759.83	726.62	692.14	656.35	2,694.99	1,570.79	308.54	8,201.07
Total Principal and Interest	\$ 17,626.52	\$ 17,626.52	\$ 17,626.52	\$ 17,626.52	\$ 17,626.52	\$ 88,132.60	\$ 88,132.60	\$ 52,879.56	\$ 317,277.36