

RURAL WATER DISTRICT NO. 3

SEDGWICK COUNTY, KANSAS

Independent Auditor's Report

December 31, 2011

Rural Water District No. 3, Sedgwick 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 Change 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 Statement, December 31, 2011	6-10

# Knudsen Monroe & Company LLC

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Rural Water District No. 3,  
Sedgwick County, Kansas

We have audited the accompanying balance sheets of the Rural Water District No. 3, Sedgwick County, Kansas as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and change 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. 3, Sedgwick 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.

Rural Water District No. 3, 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  
March 12, 2012

Rural Water District No. 3, Sedgwick County Kansas

BALANCE SHEETS

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 857,172	300,033
Certificates of deposit	871,992	2,437,462
Investments	1,200,162	1,078,533
Accounts receivable - customers	97,205	95,170
Accrued interest income	6,528	11,659
Inventory	<u>73,457</u>	<u>93,072</u>
Total current assets	<u>3,106,516</u>	<u>4,015,929</u>
<b>CAPITAL ASSETS, net of accumulated depreciation when applicable</b>		
Capital assets not being depreciated	1,332,794	105,764
Capital assets, net of depreciation	<u>3,199,471</u>	<u>3,304,153</u>
Total capital assets	<u>4,532,265</u>	<u>3,409,917</u>
Total assets	<u>\$ 7,638,781</u>	<u>7,425,846</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 6,000	6,000
Accounts payable	30,292	42,983
Other accrued expenses	<u>83</u>	<u>2,752</u>
Total current liabilities	36,375	51,735
<b>LONG-TERM DEBT, net of current portion</b>	<u>12,000</u>	<u>18,000</u>
Total liabilities	<u>48,375</u>	<u>69,735</u>
<b>NET ASSETS, Page 3</b>		
Invested in capital assets, net of related debt	4,514,265	3,385,917
Unrestricted	<u>3,076,141</u>	<u>3,970,194</u>
Total fund equity	<u>7,590,406</u>	<u>7,356,111</u>
Total liabilities and fund equity	<u>\$ 7,638,781</u>	<u>7,425,846</u>

Rural Water District No. 3, Sedgwick County Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN FUND EQUITY

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>REVENUES</b>		
Water sales	\$ 1,152,146	1,121,923
Other fees	<u>23,064</u>	<u>21,162</u>
Total operating revenues	<u>1,175,210</u>	<u>1,143,085</u>
<b>EXPENSES</b>		
Cost of water purchased	258,645	283,354
Water protection fee	4,315	5,009
Wages and salaries	337,086	293,372
Payroll taxes	26,117	23,608
SIMPLE retirement contribution	6,741	6,185
Employee benefits - insurance	72,865	59,890
Education and training	580	550
Office supplies and expenses	24,437	31,743
Accounting fees	14,133	17,971
Engineering fees	9,081	22,269
Legal fees	30,448	42,719
Insurance	27,937	33,737
Fuel and vehicle maintenance	16,535	14,083
Repairs and maintenance	83,376	44,576
Utilities	8,432	12,768
Depreciation	201,913	195,746
Other expenses	<u>18,398</u>	<u>13,343</u>
Total operating expenses	<u>1,141,039</u>	<u>1,100,923</u>
Operating income	<u>34,171</u>	<u>42,162</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	45,338	68,654
Gain on property released	86,700	-
Loss on sale of investments	<u>(12,514)</u>	<u>(10,862)</u>
Total nonoperating revenues (expenses)	<u>119,524</u>	<u>57,792</u>
Income before other revenues	153,695	99,954
<b>OTHER REVENUES</b>		
Benefit unit sales	<u>80,600</u>	<u>57,200</u>
Net Income	234,295	157,154
FUND EQUITY, beginning of year	<u>7,356,111</u>	<u>7,198,957</u>
FUND EQUITY, end of year	<u>\$ 7,590,406</u>	<u>7,356,111</u>

See notes to financial statements

Rural Water District No. 3, Sedgwick County Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from water sales	\$ 1,150,071	1,120,765
Other cash received	<u>23,064</u>	<u>21,162</u>
	<u>1,173,135</u>	<u>1,141,927</u>
Cash paid for:		
Water purchases	(260,298)	(287,947)
Salaries, payroll taxes and benefits	(442,801)	(383,888)
Other expenses	<u>(231,732)</u>	<u>(228,646)</u>
	<u>(934,831)</u>	<u>(900,481)</u>
Net cash provided by operating activities	<u>238,304</u>	<u>241,446</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Gain on property released	86,700	-
Purchase of certificates of deposit	(3,858)	(855,945)
Redemption of certificates of deposit	1,569,328	372,259
Purchase of investments	(536,214)	(764,610)
Redemption of investments	402,071	910,000
Interest income received	50,469	74,583
Purchase of capital assets	<u>(1,324,261)</u>	<u>(62,584)</u>
Net cash provided by (used in) investing activities	<u>244,235</u>	<u>(326,297)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long-term debt payments	(6,000)	-
Benefit unit sales	<u>80,600</u>	<u>57,200</u>
Net cash provided by financing activities	<u>74,600</u>	<u>57,200</u>
Net increase (decrease) in cash and cash equivalents	557,139	(27,651)
CASH AND CASH EQUIVALENTS, beginning of year	<u>300,033</u>	<u>327,684</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 857,172</u>	<u>300,033</u>

See notes to financial statements

Rural Water District No. 3, Sedgwick County Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income, Page 3	\$ 34,171	42,162
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	201,913	195,746
(Increase) decrease in receivables	(2,035)	(1,176)
(Increase) decrease in inventory	19,615	(10,580)
Increase (decrease) in accounts payable and accrued expenses	<u>(15,360)</u>	<u>15,294</u>
Net cash provided by operating activities	<u>\$ 238,304</u>	<u>241,446</u>
<b>NONCASH ACTIVITY</b>		
Capital asset addition included in accounts payable	<u>\$ -</u>	<u>\$ 230</u>
Land purchased on installment basis	<u>\$ -</u>	<u>\$ 24,000</u>
Loss on sale of investments	<u>\$ (12,514)</u>	<u>\$ (10,862)</u>

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 3, Sedgwick County, Kansas was incorporated and organized on February 16, 1972, 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, Sumner, Butler and Cowley 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, capital assets consisted of the following:

	<u>2011</u>	<u>2010</u>
Capital assets not being depreciated		
Land	\$ 143,651	105,764
Construction in progress	<u>1,189,143</u>	<u>-</u>
	<u>\$ 1,332,794</u>	<u>105,764</u>
Capital assets being depreciated		
Water system and line	\$ 5,315,206	5,288,952
Buildings and improvements	536,679	536,679
Equipment and furnishings	519,332	449,918
Vehicles	<u>143,928</u>	<u>142,365</u>
	6,515,145	6,417,914
Less accumulated depreciation	<u>3,315,674</u>	<u>3,113,761</u>
	<u>\$ 3,199,471</u>	<u>3,304,153</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.

Accounts Receivable

The District reports customer accounts receivable for water used at net realizable amounts. 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.

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

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

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. DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2011 the carrying amount of the District's deposits, including certificates of deposit, was \$1,729,164. The bank balance was \$1,733,441. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$982,932 was covered by FDIC insurance, and the remaining \$750,509 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Composition of Cash and Cash Equivalents

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

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents		
Petty Cash	\$ 200	200
Carson Bank, NOW accounts, Mulvane, Kansas	185,448	121,711
Carson Bank, money market account, Mulvane, Kansas	<u>671,524</u>	<u>178,122</u>
Total cash and cash equivalents	<u>\$ 857,172</u>	<u>300,033</u>

Investments

Kansas statutes authorize the District to invest in U.S. Treasury bills and notes, U.S. Government Securities, 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 held U.S. Government Securities consisting of Federal Home Loan Bank and U.S. Treasury notes. The District does not make adjustments for temporary market fluctuations. Generally, the maturity of these securities occurs within two years of acquisition. Premiums or discounts on purchases are not amortized or accreted. The investments are carried at cost which approximates fair value. Maturities result in a gain or a loss and are reported in the financial statements under nonoperating income. Interest rates on these investments range from 0.8% to 2.5%.

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

2. DEPOSITS AND INVESTMENTS (Continued)

Composition of Certificates of Deposit

At December 31, 2011 and 2010, certificates of deposit consist of the following:

	<u>2011</u>	<u>2010</u>
Certificates of Deposit		
Carson Bank, Mulvane, Kansas	\$ 139,060	310,447
Intrust Bank, Wichita, Kansas	122,932	122,015
Other banks	<u>610,000</u>	<u>2,005,000</u>
Total certificates of deposit	<u>\$ 871,992</u>	<u>2,437,462</u>

Composition of Investments:

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

	<u>2011</u>	<u>2010</u>
U.S. Government Securities		
U.S. Savings Bonds	\$ 75	75
U.S. Treasury Notes	152,314	-
Federal Home Loan Bank	<u>1,047,773</u>	<u>1,078,458</u>
Total investments	<u>\$ 1,200,162</u>	<u>1,078,533</u>

As of December 31, 2011, the District had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u>		<u>Rating</u>
		<u>(in Years)</u>		
		<u>Less than 1</u>	<u>1-2</u>	
U.S. Treasury Notes	\$ 152,004		152,004	N/A
Federal Home Loan Bank	<u>1,039,047</u>	<u>835,237</u>	<u>203,810</u>	S&P AA+
Total Fair Value	<u>\$ 1,191,051</u>	<u>835,237</u>	<u>355,814</u>	

Concentration of credit risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The District's allocation of investments as of December 31, 2011, is as follows:

<u>Investment Type</u>	<u>Percentage of Investments</u>
U.S. Treasury Notes	12.76%
Federal Home Loan Bank	87.24%

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

3. LONG-TERM DEBT

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

	<u>2011</u>	<u>2010</u>
Note payable to Wilfred and Mary Goevert due in annual installments of \$6,000 at 0% interest due by December 16, 2014	\$ 18,000	24,000
Less current portion	<u>6,000</u>	<u>6,000</u>
	<u>\$ 12,000</u>	<u>18,000</u>

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

2012	\$ 6,000
2013	6,000
2014	<u>6,000</u>
	<u>\$ 18,000</u>

4. CAPITAL PROJECTS

Capital project authorizations compared with cash disbursements and accounts payable from inception are as follows:

	<u>Project Authorization</u>	<u>Cash Disbursements and Accounts Payable to Date</u>
55th Street Booster Pump Station	\$ 859,000	313,194
55th Street	760,000	758,693
111th Street / Greenwich Road	120,000	117,256

5. RETIREMENT PLAN

The District established a SIMPLE IRA program beginning in 1999 for qualified employees. The District matches employee contributions to the plan up to 3 percent of compensation. The District's contribution was \$6,741 and \$6,185 for the years ended December 31, 2011 and 2010.

6. GAIN ON PROPERTY RELEASED

Periodically the District enters into agreements with the City of Derby, Rose Hill and others to release benefit units from the District. The proceeds from these releases were \$86,700 during 2011 and \$0 during 2010.

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

7. CONCENTRATIONS OF RISK

Major Supplier

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

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 March 12, 2012, which is the date at which the financial statements were available to be issued.