

RURAL WATER DISTRICT NO. 1

HARVEY COUNTY, KANSAS

Independent Auditor's Report

December 31, 2012

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 financial statements of Rural Water District No. 1, Harvey County, Kansas, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and the *Kansas Municipal Audit Guide*; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other-Matters***

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  
Newton, Kansas  
February 11, 2013

Rural Water District No. 1, Harvey County, Kansas

BALANCE SHEETS

December 31, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 689,172	765,626
Certificates of deposit	577,340	573,214
Accounts receivable - customers	40,722	44,564
Accounts receivable - other	18,136	517
Accrued interest income	518	958
Inventory	25,276	25,302
Prepaid expenses	4,916	5,133
Total current assets	<u>1,356,080</u>	<u>1,415,314</u>
<b>CAPITAL ASSETS, net of accumulated depreciation when applicable</b>		
Capital assets not being depreciated	163,678	17,391
Capital assets, net of depreciation	<u>4,977,804</u>	<u>5,125,536</u>
Total capital assets	<u>5,141,482</u>	<u>5,142,927</u>
<b>OTHER ASSETS</b>		
Loan fees - net of accumulated amortization of \$14,340 and \$11,666 respectively	39,142	41,816
Restricted investment - KDHE loan reserve	<u>424,331</u>	<u>424,331</u>
Total other assets	<u>463,473</u>	<u>466,147</u>
Total assets	<u>\$6,961,035</u>	<u>7,024,388</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 290,007	172,655
Accounts payable	53,194	29,335
Accrued interest payable	<u>45,817</u>	<u>50,107</u>
Total current liabilities	389,018	252,097
<b>LONG-TERM DEBT</b>		
Long-term debt, net of current portion	<u>2,950,652</u>	<u>3,352,842</u>
Total liabilities	<u>3,339,670</u>	<u>3,604,939</u>
<b>NET ASSETS, Page 4</b>		
Invested in capital assets, net of related debt	1,900,823	1,617,430
Restricted for debt service	545,760	545,760
Unrestricted	<u>1,174,782</u>	<u>1,256,259</u>
Total fund equity	<u>3,621,365</u>	<u>3,419,449</u>
Total liabilities and fund equity	<u>\$6,961,035</u>	<u>7,024,388</u>

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>REVENUES</b>		
Water sales	\$ 777,363	760,252
Miscellaneous income	<u>30,353</u>	<u>33,651</u>
Total operating revenues	<u>807,716</u>	<u>793,903</u>
<b>EXPENSES</b>		
Cost of water purchased	3,425	2,167
Office supplies and expenses	15,183	12,957
Professional fees	6,606	4,655
Salaries	144,478	145,584
Payroll taxes	15,142	15,349
Utilities	36,122	36,852
Depreciation	243,907	240,048
Dues and fees	2,534	1,776
Insurance	15,809	15,746
Repairs and maintenance	19,199	12,800
Vehicle and mileage	21,008	18,136
Other expenses	<u>10,850</u>	<u>7,718</u>
Total operating expenses	<u>534,263</u>	<u>513,788</u>
Operating income	<u>273,453</u>	<u>280,115</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	5,547	9,361
Loss on disposition of property assets	(125)	(443)
Interest expense	(114,485)	(122,198)
Amortization of bond issuance costs	<u>(2,674)</u>	<u>(2,674)</u>
Total nonoperating revenues (expenses)	<u>(111,737)</u>	<u>(115,954)</u>
Income before other revenues	161,716	164,161
<b>OTHER REVENUES</b>		
Benefit unit sales	<u>40,200</u>	<u>54,700</u>
Net income	201,916	218,861
FUND EQUITY, beginning of year	<u>3,419,449</u>	<u>3,200,588</u>
FUND EQUITY, end of year	<u>\$3,621,365</u>	<u>3,419,449</u>

See notes to financial statements

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from water sales	\$ 781,205	766,335
Other cash received	<u>12,734</u>	<u>33,674</u>
	<u>793,939</u>	<u>800,009</u>
Cash paid for:		
Water purchases	(3,453)	(2,157)
Salaries and payroll taxes	(159,618)	(160,895)
Other expenses	<u>(125,202)</u>	<u>(115,073)</u>
	<u>(288,273)</u>	<u>(278,125)</u>
Net cash provided by operating activities	<u>505,666</u>	<u>521,884</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(4,126)	(7,035)
Interest income received	5,987	11,056
Purchase of capital assets	<u>(220,568)</u>	<u>(24,490)</u>
Net cash used in investing activities	<u>(218,707)</u>	<u>(20,469)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long-term debt payments		
Principal paid	(284,838)	(166,824)
Interest paid	(118,775)	(124,606)
Benefit unit sales	<u>40,200</u>	<u>54,700</u>
Net cash used in financing activities	<u>(363,413)</u>	<u>(236,730)</u>
Net increase (decrease) in cash and cash equivalents	(76,454)	264,685
CASH AND CASH EQUIVALENTS, beginning of year	<u>765,626</u>	<u>500,941</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 689,172</u>	<u>765,626</u>

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income, Page 4	\$ 273,453	280,115
Adjustments to reconcile change in operating income to net cash provided by operating activities		
Depreciation	243,907	240,048
Decrease in receivables - customers	3,842	6,083
(Increase) decrease in receivables - other	(17,619)	23
(Increase) decrease in inventory	26	(461)
(Increase) decrease in prepaid expenses	217	(1,112)
Increase (decrease) in accounts payable	<u>1,840</u>	<u>(2,812)</u>
Net cash provided by operating activities	<u>\$ 505,666</u>	<u>521,884</u>
<b>NONCASH ACTIVITY</b>		
Amortization of bond issuance costs	<u>\$ 2,674</u>	<u>2,674</u>
Capital asset addition included in accounts payable	<u>\$ 45,626</u>	<u>23,607</u>
Loss on disposition of capital assets	<u>\$ 125</u>	<u>443</u>

Rural Water District No. 1, Harvey County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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, 2012 and 2011, capital assets consist of the following:

	<u>2012</u>	<u>2011</u>
Capital assets not being depreciated		
Land	\$ 7,422	7,422
Construction in progress	<u>156,256</u>	<u>9,969</u>
	<u>\$ 163,678</u>	<u>17,391</u>
Capital assets being depreciated		
Water system and line	\$7,763,409	7,668,366
Buildings and improvements	167,871	167,871
Equipment and furnishings	102,056	102,836
Vehicles	<u>66,918</u>	<u>66,918</u>
	8,100,254	8,005,991
Less accumulated depreciation	<u>3,122,450</u>	<u>2,880,455</u>
	<u>\$4,977,804</u>	<u>5,125,536</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, 2012

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, 2012 and 2011, 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, 2012, the bank balance of the District's deposits, including certificates of deposit, was \$1,280,667. Of this balance \$402,369 was covered by FDIC insurance and \$878,298 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>	2012	
			<u>Amount</u>	2011 <u>Amount</u>
04/09/10	04/09/13	0.50	\$ 175,888	174,572
05/05/06	05/04/13	0.50	55,865	55,475
07/24/08	07/24/13	0.60	96,504	95,686
08/03/06	08/03/13	0.50	65,822	65,322
10/21/08	10/21/13	0.40	124,142	123,336
12/06/07	12/06/13	0.40	59,119	58,823
			<u>\$ 577,340</u>	<u>573,214</u>

Rural Water District No. 1, Harvey County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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>2012</u>	<u>2011</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 (additional principal payment made in 2012). Due February 1, 2020.	\$ 140,876	281,471
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>3,099,783</u>	<u>3,244,026</u>
	3,240,659	3,525,497
Less current portion	<u>290,007</u>	<u>172,655</u>
Long-term portion	<u>\$2,950,652</u>	<u>3,352,842</u>

Scheduled maturities of long-term debt:

2013	\$ 290,007
2014	154,184
2015	159,408
2016	164,809
2017	170,393
Thereafter	<u>2,301,858</u>
	<u>\$3,240,659</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, 2012.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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 \$3,945 and \$3,281 for the years ended December 31, 2012 and 2011, respectively.

6. FUND EQUITY – RESTRICTED

	<u>2012</u>	<u>2011</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>

7. SUBSEQUENT EVENT

On February 1, 2013, the District paid off the remaining \$140,876 of principal owed to the Kansas Department of Health and Environment (See Note 4). This payment was made by using \$53,968 of funds held in a bond reserve account and the balance from surplus cash on hand. The full principal amount has been included in the current portion of long-term debt.

8. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2012, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through February 11, 2013, which is the date at which the financial statements were available to be issued.