

RURAL WATER DISTRICT NO. 1
SEDGWICK COUNTY, KANSAS
Independent Auditor's Report
December 31, 2012

Rural Water District No. 1
Sedgwick County, Kansas

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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 financial statements of Rural Water District No. 1, Sedgwick 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, Sedgwick 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, 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, Menwe & Company LLC

Certified Public Accountants
Newton, Kansas
February 18, 2013

Rural Water District No. 1, Sedgwick County, Kansas

BALANCE SHEETS

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 79,662	113,805
Investments	1,045,335	1,034,616
Accounts receivable	29,256	24,714
Accrued interest receivable	43	189
Prepaid insurance	<u>185</u>	<u>181</u>
Total current assets	1,154,481	1,173,505
CAPITAL ASSETS, net of accumulated depreciation	<u>758,444</u>	<u>761,259</u>
Total assets	<u>\$ 1,912,925</u>	<u>1,934,764</u>
<u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 35,375	32,752
Accounts payable	669	534
Other accrued expenses	<u>3,094</u>	<u>2,901</u>
Total current liabilities	39,138	36,187
LONG-TERM DEBT, net of current portion	<u>98,502</u>	<u>133,973</u>
Total liabilities	<u>137,640</u>	<u>170,160</u>
FUND EQUITY		
Invested in capital assets, net of related debt	624,567	594,534
Unrestricted	<u>1,150,718</u>	<u>1,170,070</u>
Total fund equity	<u>1,775,285</u>	<u>1,764,604</u>
Total liabilities and fund equity	<u>\$ 1,912,925</u>	<u>1,934,764</u>

See notes to financial statements

Rural Water District No. 1, Sedgwick County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Water sales	\$ 219,191	225,196
Other	<u>600</u>	<u>100</u>
Total operating revenues	<u>219,791</u>	<u>225,296</u>
EXPENSES		
Water purchases	71,423	68,154
Personnel	36,219	34,924
Utilities	585	524
Office supplies	4,080	5,440
Water protection fee	1,879	1,976
Insurance	3,807	3,647
Repairs	34,655	33,811
Mileage	3,119	2,775
Professional fees	13,386	9,157
Depreciation	43,521	43,228
Other	<u>397</u>	<u>397</u>
Total operating expenses	<u>213,071</u>	<u>204,033</u>
Operating income	<u>6,720</u>	<u>21,263</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	10,609	11,957
Interest expense	<u>(11,648)</u>	<u>(14,114)</u>
Total nonoperating revenues (expenses)	<u>(1,039)</u>	<u>(2,157)</u>
Income before other revenues	5,681	19,106
OTHER REVENUES		
Grant income	-	4,000
Benefit unit sales	<u>5,000</u>	<u>2,500</u>
Net income	10,681	25,606
FUND EQUITY, beginning of year	<u>1,764,604</u>	<u>1,738,998</u>
FUND EQUITY, end of year	<u>\$ 1,775,285</u>	<u>1,764,604</u>

See notes to financial statements

Rural Water District No. 1, Sedgwick County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 219,824	229,466
Other cash received	<u>600</u>	<u>100</u>
	<u>220,424</u>	<u>229,566</u>
Cash paid for:		
Water purchases	(71,423)	(68,154)
Salaries and payroll taxes	(36,099)	(34,784)
Other expenses	<u>(66,879)</u>	<u>(61,636)</u>
	<u>(174,401)</u>	<u>(164,574)</u>
Net cash provided by operating activities	<u>46,023</u>	<u>64,992</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(932,321)	(435,650)
Redemption of investments	921,602	474,050
Interest income received	10,755	11,957
Purchase of property assets	<u>(40,706)</u>	<u>(17,517)</u>
Net cash provided by (used in) investing activities	<u>(40,670)</u>	<u>32,840</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Long-term debt payments		
Interest paid	(11,648)	(14,114)
Principal paid	(32,848)	(30,381)
Proceeds from grant funds	-	4,000
Benefit unit sales	<u>5,000</u>	<u>2,500</u>
Net cash used in financing activities	<u>(39,496)</u>	<u>(37,995)</u>
Net increase (decrease) in cash and cash equivalents	(34,143)	59,837
CASH AND CASH EQUIVALENTS, beginning of year	<u>113,805</u>	<u>53,968</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 79,662</u>	<u>113,805</u>

See notes to financial statements

Rural Water District No. 1, Sedgwick County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income, Page 4	\$ 6,720	21,263
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	43,521	43,228
(Increase) decrease in receivables	(4,542)	35
Increase in prepaid insurance	(4)	(7)
Increase in accounts payable and accrued expenses	<u>328</u>	<u>473</u>
Net cash provided by operating activities	<u>\$ 46,023</u>	<u>64,992</u>

Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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, 2012 and 2011, property assets consisted of the following:

	<u>2012</u>	<u>2011</u>
Capital assets being depreciated		
Water system and line	\$ 1,613,671	1,572,965
Less accumulated depreciation	<u>855,227</u>	<u>811,706</u>
	<u>\$ 758,444</u>	<u>761,259</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, 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.

Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. DEPOSITS AND INVESTMENTS

Composition of Cash and Investments

At December 31, 2012 and 2011, cash and investments consist of the following accounts with local financial institutions:

	<u>2012</u>	<u>2011</u>
Cash		
Petty Cash	\$ 10	10
Intrust Bank, Now account, Wichita, Kansas	61,519	95,698
Simmons First National Bank, money market account, Olathe, KS	<u>18,133</u>	<u>18,097</u>
Total cash	<u>79,662</u>	<u>113,805</u>
Investments		
Certificates of deposit		
Southwest National Bank	<u>1,045,335</u>	<u>1,034,616</u>
Total cash and investments	<u>\$ 1,124,997</u>	<u>1,148,421</u>

Deposits

At December 31, 2012 the carrying amount of the District's deposits, including certificates of deposit, was \$1,124,997. The bank balance was \$1,131,844. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. At December 31, 2012, all of the bank balance of \$1,131,844 was covered by FDIC insurance.

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, 2012, the District did not have any of these investments.

3. CONCENTRATIONS OF RISK

Major Supplier

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

Rural Water District No. 1, Sedgwick County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

4. LONG-TERM DEBT

A summary of the long term debt obligations at December 31 is as follows:

	<u>2012</u>	<u>2011</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	\$ 133,877	166,725
Less current portion	<u>35,375</u>	<u>32,752</u>
	<u>\$ 98,502</u>	<u>133,973</u>

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

2013	\$ 35,375
2014	38,208
2015	41,269
2016	<u>19,025</u>
	<u>\$ 133,877</u>

The loan is guaranteed by USDA Rural Development.

Net revenues of the district have been pledged as security for the debt, and the Water District is required to have net revenues, as defined in the debt agreement, 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.

5. SUBSEQUENT EVENT

The Water District is currently in negotiations with the City of Bel Aire, Kansas regarding service to new developments within the City.

6. 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 18, 2013, which is the date at which the financial statements were available to be issued.