

PUBLIC WHOLESALE WATER
SUPPLY DISTRICT NO. 17

NEWTON, KANSAS

Independent Auditor's Report

December 31, 2011

Public Wholesale Water Supply District No. 17

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Public Wholesale Water Supply District No. 17
Newton, Kansas

We have audited the accompanying balance sheets of the Public Wholesale Water Supply District No. 17, Newton, Kansas 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 audits 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 Public Wholesale Water Supply District No. 17, Newton, 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.

The Public Wholesale Water Supply District No. 17 has not presented the Management Discussion and Analysis determined by the Governmental Accounting Standards Board to be necessary to supplement, although not required to be part of, the basic financial statements.

Knudsen, Monroe & Company, LLC

Certified Public Accountants

Newton, Kansas
July 12, 2012

Public Wholesale Water Supply District No. 17

BALANCE SHEETS

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 249,875	272,206
Accounts receivable	17,684	14,290
Interest receivable	<u>85</u>	<u>932</u>
Total current assets	<u>267,644</u>	<u>287,428</u>
RESTRICTED ASSETS - CASH	<u>333,446</u>	<u>333,446</u>
CAPITAL ASSETS		
Capital assets not being depreciated	81,620	81,620
Other capital assets, net of accumulated depreciation	<u>1,924,611</u>	<u>2,028,288</u>
Total capital assets	<u>2,006,231</u>	<u>2,109,908</u>
OTHER ASSETS AND DEFERRED CHARGES, net of accumulated amortization	<u>19,103</u>	<u>20,998</u>
	<u>\$ 2,626,424</u>	<u>2,751,780</u>
<u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 183,034	175,857
Accounts payable	1,941	-
Interest payable	<u>31,912</u>	<u>34,391</u>
Total current liabilities	216,887	210,248
LONG-TERM DEBT	<u>1,684,144</u>	<u>1,867,179</u>
Total liabilities	<u>1,901,031</u>	<u>2,077,427</u>
FUND EQUITY, page 3		
Invested in capital assets, net of related debt	158,156	87,870
Restricted for debt service (nonexpendable)	333,446	333,446
Unrestricted	<u>233,791</u>	<u>253,037</u>
Total fund equity	<u>725,393</u>	<u>674,353</u>
	<u>\$ 2,626,424</u>	<u>2,751,780</u>

See notes to financial statements

Public Wholesale Water Supply District No. 17

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Water sales	\$ <u>203,550</u>	<u>200,008</u>
OPERATING EXPENSES		
Professional fees	3,650	3,350
Depreciation and amortization	105,571	105,571
Insurance	6,508	8,058
Utilities	26,409	27,760
Repairs and maintenance	22,971	16,818
Property taxes and other	<u>2,415</u>	<u>2,415</u>
Total operating expenses	<u>167,524</u>	<u>163,972</u>
Operating income	36,026	36,036
OTHER INCOME (EXPENSE)		
Interest income	1,265	3,757
Interest expense	<u>(78,301)</u>	<u>(84,831)</u>
Income (loss) before capital contributions	(41,010)	(45,038)
CAPITAL CONTRIBUTIONS		
City of Halstead	30,417	30,417
City of Sedgwick	<u>61,633</u>	<u>61,633</u>
Net income	51,040	47,012
FUND EQUITY, beginning	<u>674,353</u>	<u>627,341</u>
FUND EQUITY, ending	<u>\$ 725,393</u>	<u>674,353</u>

See notes to financial statements

Public Wholesale Water Supply District No. 17

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	\$ <u>200,156</u>	<u>196,248</u>
Cash paid for		
Utilities	26,409	29,580
Repairs and maintenance	22,971	19,405
Other expenses	<u>10,632</u>	<u>13,823</u>
	<u>60,012</u>	<u>62,808</u>
Net cash provided by operating activities	<u>140,144</u>	<u>133,440</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on long-term debt:		
Principal paid	(175,857)	(168,962)
Interest paid	(80,780)	(87,675)
Capital contributions:		
Halstead	30,417	30,417
Sedgwick	<u>61,633</u>	<u>61,633</u>
Net cash used in capital and related financing activities	<u>(164,587)</u>	<u>(164,587)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	<u>2,112</u>	<u>4,870</u>
Net increase (decrease) in cash and cash equivalents	(22,331)	(26,277)
CASH AND CASH EQUIVALENTS, beginning	<u>272,206</u>	<u>298,483</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 249,875</u>	<u>272,206</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income, page 3	\$ 36,026	36,036
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	105,571	105,571
(Increase) decrease in accounts receivable	(3,394)	(3,760)
Increase (decrease) in accounts payable	<u>1,941</u>	<u>(4,407)</u>
Net cash provided by operating activities	<u>\$ 140,144</u>	<u>133,440</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Public Wholesale Water Supply District No. 17, Newton, Kansas (the District) was incorporated and organized on February 17, 1997, under provisions of K.S.A. 19-3545 through 19-3557. The District was created as a joint venture between the cities of Halstead, Newton, North Newton and Sedgwick for the purpose of securing adequate water sources for the venture members, building a water distribution system and selling water to the members and other customers as permitted by state statutes. The District operates under a five-member board of directors. Directors are appointed by the city joint venture partners based on voting rights.

Basis of Accounting

The financial activities of the District are proprietary in nature; accordingly, generally accepted accounting principles require that the accrual basis of accounting be used to prepare financial statements. The measurement focus under the accrual basis is on economic resources. All assets and liabilities, current and non-current, are included on the balance sheet of the District. The District's reported fund equity is segregated into net investment in capital assets, amounts restricted for debt service, and unrestricted amounts. Operating statements present increases and decreases in net total assets.

Capital Assets

Capital assets are recorded at cost, estimated original cost, or fair value if gifted. At December 31, 2011 and 2010, capital assets consisted of purchased land for well sites, and a water distribution system, which includes the cost of water lines, wells, and the planning, engineering and testing of the system. The water distribution system is being depreciated over 30 years using the straight-line method.

Other Assets and Amortization

Other assets consist of capitalized loan acquisition fees, which are amortized over the 22-year loan term.

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 three months or less to be a cash equivalent. At December 31, 2011 and 2010, cash and equivalents consisted of a demand account with a local financial institution.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Public Wholesale Water Supply District No. 17

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Principles

The District is required under its bylaws to prepare and operate under a calendar year budget. The budget, proposed by the District's general manager, is to be approved at the annual meeting of the directors by at least a two-thirds vote. Total expenditures may not exceed total appropriations; however, management may transfer appropriations between budget lines without approval of the governing body.

2. CASH AND DEPOSITS

Deposits

At December 31, 2011 and 2010, the carrying amount and bank balance of the District's deposits were \$249,875 and \$272,206 respectively. At December 31, 2011, the entire bank balance was covered by FDIC insurance.

Investments

Kansas statutes authorize the District to invest in U.S. Treasury bills and notes, repurchase agreements, and the Kansas State Treasurer's Investment Pool. All investments must be insured, registered, or held by the district or its agent in the District's name. The District held no investments during 2011 or 2010.

3. CAPITAL ASSETS

Capital assets consisted of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Capital assets not being depreciated:		
Land	\$ 81,620	81,620
Capital assets being depreciated:		
Water lines and distribution system	3,110,267	3,110,267
Less accumulated depreciation	<u>(1,185,656)</u>	<u>(1,081,979)</u>
	<u>1,924,611</u>	<u>2,028,288</u>
Total capital assets	<u>\$ 2,006,231</u>	<u>2,109,908</u>

At both balance sheet dates, the water distribution system included \$99,627 in capitalized interest costs.

Depreciation expense was \$103,676 in 2011 and \$103,676 in 2010.

Public Wholesale Water Supply District No. 17

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

4. OTHER ASSETS

Other assets consisted of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Loan acquisition fees	\$ 41,681	41,681
Less accumulated amortization	<u>(22,578)</u>	<u>(20,683)</u>
	<u>\$ 19,103</u>	<u>20,998</u>

Amortization expense was \$1,895 in 2011 and \$1,895 in 2010.

5. LONG-TERM DEBT

The District was approved to receive a low-interest loan through the Kansas Public Water Supply Revolving Loan Fund to use for construction of the District's water distribution system. During 2000, \$3,180,049 was drawn from the Kansas Department of Health and Environment (KDHE) and recorded as long-term debt. Interest and fees in the amount of \$138,765 were capitalized in 2001 and an additional \$15,641 was drawn in 2002, bringing the total debt to \$3,334,455. The District is making semiannual payments in the amount of \$128,318 at an annual interest rate of 4 percent. The loan balance at December 31, 2011 was \$1,867,178.

A schedule of principal and interest requirements follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 183,034	73,604
2013	190,503	66,135
2014	198,277	58,361
2015	206,368	50,269
2016	214,790	41,848
2017-2020	<u>874,206</u>	<u>76,089</u>
	<u>\$ 1,867,178</u>	<u>366,306</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

5. LONG-TERM DEBT (Continued)

Compliance With Loan Requirements

The loan agreement with KDHE requires that the District's net revenues available for debt service, as defined, be an amount not less than 125 percent of the current year's principal and interest payments due on the loan. As noted in the following schedule, the District was in compliance with this requirement for the year ended December 31, 2011.

Net income (loss), Page 3	\$ 51,040
Add non-operating expenses:	
Depreciation and amortization	105,571
Interest expense	78,301
Unencumbered cash	<u>249,875</u>
Net revenues available for debt service, as defined	484,787
125% of the scheduled 2012 principal and interest payments	<u>320,798</u>
Net income over amount required	<u>\$ 163,989</u>

Under the loan agreement, 10 percent of all loan proceeds drawn were deposited with KDHE in a reserve account. At December 31, 2011 and 2010, the District had \$333,446 deposited in the reserve account classified on the balance sheet as restricted cash, which met the 10 percent requirement. The District earns interest on the balance at a variable rate. While the interest is applied to the semiannual loan payments, the principal will remain in the reserve account until the loan has been reduced to the same amount, at which time the reserve will be applied to the remaining loan balance.

6. RELATED-PARTY TRANSACTIONS

City of Newton

District General Manager - The general manager for the District is also the Director of Public Works for the City of Newton, Kansas.

Maintenance and Administrative Services - The City of Newton provides equipment maintenance, accounting, and other administrative services to the District for an annual fee of \$12,000.

Public Wholesale Water Supply District No. 17

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

7. BUDGETARY DATA

Kansas statutes require that in proprietary fund budgets, revenues be budgeted on a cash basis and expenditures on a modified accrual basis. This is a basis of accounting that differs from the accrual basis required by generally accepted accounting principles. Actual operations compared to budgeted operations for the District are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Over <u>(Under)</u>
Revenues			
Operating	\$ 195,000	200,156	5,156
Interest	5,000	2,112	(2,888)
Contributed capital for debt service	<u>92,050</u>	<u>92,050</u>	<u>-</u>
Total revenues	<u>292,050</u>	<u>294,318</u>	<u>2,268</u>
Expenditures			
Operating	91,900	60,012	(31,888)
Debt Service	<u>256,637</u>	<u>256,637</u>	<u>-</u>
Total expenditures	<u>348,537</u>	<u>316,649</u>	<u>(31,888)</u>
Revenues over (under) expenditures	<u>\$ (56,487)</u>	<u>(22,331)</u>	<u>34,156</u>
Reconciliation to GAAP basis net income			
Depreciation and amortization		(105,571)	
Principal payments included in debt service		175,857	
Accounts Receivable			
December 31, 2011		17,684	
December 31, 2010		(14,290)	
Interest receivable			
December 31, 2011		85	
December 31, 2010		(932)	
Interest payable			
December 31, 2011		(31,912)	
December 31, 2010		34,391	
Accounts payable			
December 31, 2011		(1,941)	
December 31, 2010		<u>-</u>	
Net income, GAAP basis		<u>\$ 51,040</u>	

Public Wholesale Water Supply District No. 17

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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