

RURAL WATER DISTRICT NO. 3

SEDGWICK COUNTY, KANSAS

Independent Auditor's Report

December 31, 2012

Rural Water District No. 3, Sedgwick County Kansas

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Rural Water District No. 3, 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. 3, 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. 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, Menwe & Company LLC

Certified Public Accountants
Newton, Kansas
February 8, 2013

Rural Water District No. 3, 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	\$ 285,251	857,172
Certificates of deposit	123,303	871,992
Investments	2,102,643	1,200,162
Accounts receivable - customers	97,933	97,205
Accrued interest income	13,021	6,528
Inventory	<u>47,697</u>	<u>73,457</u>
Total current assets	<u>2,669,848</u>	<u>3,106,516</u>
CAPITAL ASSETS, net of accumulated depreciation when applicable		
Capital assets not being depreciated	143,651	1,332,794
Capital assets, net of depreciation	<u>4,816,151</u>	<u>3,199,471</u>
Total capital assets	<u>4,959,802</u>	<u>4,532,265</u>
Total assets	<u>\$ 7,629,650</u>	<u>7,638,781</u>
<u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 6,000	6,000
Accounts payable	26,826	27,747
Other accrued expenses	<u>82</u>	<u>2,628</u>
Total current liabilities	32,908	36,375
LONG-TERM DEBT, net of current portion	<u>6,000</u>	<u>12,000</u>
Total liabilities	<u>38,908</u>	<u>48,375</u>
NET ASSETS, Page 3		
Invested in capital assets, net of related debt	4,947,802	4,514,265
Unrestricted	<u>2,642,940</u>	<u>3,076,141</u>
Total fund equity	<u>7,590,742</u>	<u>7,590,406</u>
Total liabilities and fund equity	<u>\$ 7,629,650</u>	<u>7,638,781</u>

Rural Water District No. 3, Sedgwick County Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN FUND EQUITY

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Water sales	\$ 1,182,186	1,152,146
Other fees	<u>23,972</u>	<u>23,064</u>
Total operating revenues	<u>1,206,158</u>	<u>1,175,210</u>
EXPENSES		
Cost of water purchased	440,850	258,645
Water protection fee	4,447	4,315
Wages and salaries	336,549	337,086
Payroll taxes	26,071	26,117
SIMPLE retirement contribution	7,358	6,741
Employee benefits - insurance	76,846	72,865
Education and training	1,010	580
Office supplies and expenses	34,685	24,437
Accounting fees	15,825	14,133
Engineering fees	835	9,081
Legal fees	22,632	30,448
Insurance	32,130	27,937
Fuel and vehicle maintenance	23,167	16,535
Repairs and maintenance	55,446	83,376
Utilities	10,935	8,432
Depreciation	229,945	201,913
Other expenses	<u>17,824</u>	<u>18,398</u>
Total operating expenses	<u>1,336,555</u>	<u>1,141,039</u>
Operating income (loss)	<u>(130,397)</u>	<u>34,171</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	9,554	45,338
Gain on property released	34,300	86,700
Loss on sale of assets	<u>(4,121)</u>	<u>(12,514)</u>
Total nonoperating revenues (expenses)	<u>39,733</u>	<u>119,524</u>
Income (loss) before other revenues	(90,664)	153,695
OTHER REVENUES		
Benefit unit sales	<u>91,000</u>	<u>80,600</u>
Net income	336	234,295
FUND EQUITY, beginning of year	<u>7,590,406</u>	<u>7,356,111</u>
FUND EQUITY, end of year	<u>\$ 7,590,742</u>	<u>7,590,406</u>

See notes to financial statements

Rural Water District No. 3, 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	\$ 1,181,437	1,150,071
Other cash received	<u>23,972</u>	<u>23,064</u>
	<u>1,205,409</u>	<u>1,173,135</u>
Cash paid for:		
Water purchases	(445,677)	(260,298)
Salaries, payroll taxes and benefits	(446,825)	(442,801)
Other expenses	<u>(191,794)</u>	<u>(231,732)</u>
	<u>(1,084,296)</u>	<u>(934,831)</u>
Net cash provided by operating activities	<u>121,113</u>	<u>238,304</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Gain on property released	34,300	86,700
Purchase of certificates of deposit	(1,419)	(3,858)
Redemption of certificates of deposit	750,108	1,569,328
Purchase of investments	(1,745,000)	(536,214)
Redemption of investments	838,398	402,071
Interest income received	3,061	50,469
Proceeds from sale of capital assets	12,000	-
Purchase of capital assets	<u>(669,482)</u>	<u>(1,324,261)</u>
Net cash provided by (used in) investing activities	<u>(778,034)</u>	<u>244,235</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt payments	(6,000)	(6,000)
Benefit unit sales	<u>91,000</u>	<u>80,600</u>
Net cash provided by financing activities	<u>85,000</u>	<u>74,600</u>
Net increase (decrease) in cash and cash equivalents	(571,921)	557,139
CASH AND CASH EQUIVALENTS, beginning of year	<u>857,172</u>	<u>300,033</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 285,251</u>	<u>857,172</u>

See notes to financial statements

Rural Water District No. 3, 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 (loss), Page 3	\$ (130,397)	34,171
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	229,945	201,913
Increase in receivables	(728)	(2,035)
Decrease in inventory	25,760	19,615
Decrease in accounts payable and accrued expenses	<u>(3,467)</u>	<u>(15,360)</u>
Net cash provided by operating activities	<u>\$ 121,113</u>	<u>238,304</u>
NONCASH ACTIVITY		
Capital asset addition included in accounts payable	<u>\$ -</u>	<u>\$ 230</u>
Land purchased on installment basis	<u>\$ -</u>	<u>\$ (6,000)</u>
Loss on sale of assets	<u>\$ (4,121)</u>	<u>\$ (12,514)</u>

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

	<u>2012</u>	<u>2011</u>
Capital assets not being depreciated		
Land	\$ 143,651	143,651
Construction in progress	-	1,189,143
	<u>\$ 143,651</u>	<u>1,332,794</u>
Capital assets being depreciated		
Water system and line	\$ 5,370,146	5,315,206
Buildings and improvements	2,291,864	536,679
Equipment and furnishings	479,098	519,332
Vehicles	<u>123,075</u>	<u>143,928</u>
	8,264,183	6,515,145
Less accumulated depreciation	<u>3,448,032</u>	<u>3,315,674</u>
	<u>\$ 4,816,151</u>	<u>3,199,471</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, 2012 and 2011, cash and cash equivalents consisted of demand and money market accounts with local financial institutions.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2012 the carrying amount of the District's deposits, including certificates of deposit, was \$408,554. The bank balance was \$410,878. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$373,303 was covered by FDIC insurance, and the remaining \$37,575 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, 2012 and 2011, cash and cash equivalents consist of the following accounts with local financial institutions:

	2012	2011
Cash and cash equivalents		
Petty Cash	\$ 200	200
Carson Bank, NOW accounts, Mulvane, Kansas	190,016	185,448
Carson Bank, money market account, Mulvane, Kansas	95,035	671,524
Total cash and cash equivalents	\$ 285,251	857,172

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.

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2012, the District held U.S. Government Securities consisting of Federal Farm Credit Bank, 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 0.25% to 3.63%.

Composition of Certificates of Deposit

At December 31, 2012 and 2011, certificates of deposit consist of the following:

	<u>2012</u>	<u>2011</u>
Certificates of Deposit		
Carson Bank, Mulvane, Kansas	\$ -	310,447
Intrust Bank, Wichita, Kansas	123,303	122,015
Other banks	-	439,530
Total certificates of deposit	<u>\$ 123,303</u>	<u>871,992</u>

Composition of Investments:

At December 31, 2012 and 2011, investments consist of the following:

	<u>2012</u>	<u>2011</u>
U.S. Government Securities		
U.S. Savings Bonds	\$ 75	75
U.S. Treasury Notes	353,080	152,314
Federal Farm Credit Bank	457,744	-
Federal Home Loan Bank	1,291,744	1,047,773
Total investments	<u>\$ 2,102,643</u>	<u>1,200,162</u>

As of December 31, 2012, the District had the following investments and maturities.

Investment Type	Fair Value	Maturities (in Years)		Rating
		Less than 1	1-2	
U.S. Treasury Notes	\$ 353,080	152,314	200,766	S&P AA+
Federal Farm Credit Bank	457,744	-	457,744	S&P AA+
Federal Home Loan Bank	1,291,744	205,254	1,086,490	S&P AA+
Total Fair Value	<u>\$ 2,102,568</u>	<u>357,568</u>	<u>1,745,000</u>	

Rural Water District No. 3, Sedgwick County Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. DEPOSITS AND INVESTMENTS (Continued)

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, 2012, is as follows:

<u>Investment Type</u>	<u>Percentage of Investments</u>
U.S. Treasury Notes	16.79%
Federal Farm Credit Bank	21.77%
Federal Home Loan Bank	61.44%

3. LONG-TERM DEBT

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

	<u>2012</u>	<u>2011</u>
Note payable to Wilfred and Mary Goevert due in annual installments of \$6,000 at 0% interest due by December 16, 2014	\$ 12,000	18,000
Less current portion	6,000	6,000
	<u>\$ 6,000</u>	<u>12,000</u>

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

2013	\$ 6,000
2014	6,000
	<u>\$ 12,000</u>

4. 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 \$7,358 and \$6,741 for the years ended December 31, 2012 and 2011.

5. 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 \$34,300 during 2012 and \$86,700 during 2011.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

6. CONCENTRATIONS OF RISK

Major Supplier

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

7. 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 8, 2013, which is the date at which the financial statements were available to be issued.