

**RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS**

**Financial Statements for the
Years Ended September 30, 2014 and 2013
And Independent Auditors' Report**

**RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS**

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Rural Water District No. 6
Franklin County, Kansas

We were engaged to audit the accompanying financial statements of Rural Water District No. 6 of Franklin County, Kansas (District), which comprise the statements of net position as of September 30, 2014 and 2013 and related statements of revenues, expenses and changes in net position 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; 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide (KMAAG). Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The District does not maintain an inventory system nor does it take a physical inventory. Additionally, the District does not maintain a detailed and historical accounting of capital assets. Consequently, it was not practicable for us to extend our auditing procedures for these items.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis of Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Report on Supplemental and Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The "Other Information" on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described above, it is inappropriate to and we do not express an opinion on the Supplemental and Other Information referred to above.



October 30, 2014

**RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS**

**STATEMENTS OF NET POSITION
SEPTEMBER 30, 2014 AND 2013**

ASSETS	2014	2013
CURRENT ASSETS:		
Cash and cash equivalents	\$ 862,997	\$ 550,029
Certificates of deposit	419,271	552,284
Debt reserve funds	123,012	129,412
Accounts receivable	67,851	64,998
Interest receivable	573	1,145
Prepaid insurance	7,974	8,512
Total current assets	<u>1,481,678</u>	<u>1,306,379</u>
DEBT RESERVE FUNDS, less current portion	230,000	230,000
CAPITAL ASSETS, NET	<u>4,232,422</u>	<u>4,290,603</u>
	<u>\$ 5,944,100</u>	<u>\$ 5,826,983</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 110,000	\$ 110,000
Accounts payable	2,370	23,265
Accrued liabilities	44,821	45,732
Total current liabilities	<u>157,191</u>	<u>178,997</u>
LONG-TERM DEBT, less current portion	2,950,000	3,060,000
NET POSITION:		
Net investment in capital assets	1,172,422	1,120,603
Restricted	353,012	359,412
Unrestricted	1,311,475	1,107,971
	<u>2,836,909</u>	<u>2,587,986</u>
	<u>\$ 5,944,100</u>	<u>\$ 5,826,983</u>

**RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	2014	2013
WATER SALES	\$ 778,616	\$ 767,691
OPERATING EXPENSES:		
Personnel costs	179,882	170,749
Chemicals	43,291	50,497
Professional fees	11,503	5,930
Utilities and telephone	59,662	57,675
Insurance	31,297	33,278
Office supplies, dues, and meetings	15,701	11,927
Repairs, maintenance and supplies	82,413	83,438
Mileage	1,363	1,665
Vehicle	16,646	22,209
Lab fees	2,362	1,619
Water assurance and protection	8,661	8,637
Depreciation	182,486	179,815
Miscellaneous	1,061	3,134
	<u>636,328</u>	<u>630,573</u>
INCOME FROM OPERATIONS	<u>142,287</u>	<u>137,118</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	4,361	8,377
Interest expense	(112,863)	(108,944)
Other income	9,968	45,954
Late charges	15,452	17,729
	<u>(83,082)</u>	<u>(36,883)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	59,205	100,233
BENEFIT UNITS AND AID IN CONSTRUCTION	<u>189,719</u>	<u>89,375</u>
CHANGE IN NET POSITION	248,923	189,608
NET POSITION, BEGINNING	<u>2,587,986</u>	<u>2,398,376</u>
NET POSITION, ENDING	<u>\$ 2,836,909</u>	<u>\$ 2,587,986</u>

**RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 775,764	764,023
Payments to suppliers	(295,226)	(271,927)
Payments to employees	<u>(179,882)</u>	<u>(170,749)</u>
Net cash flow provided by operating activities	300,654	321,346
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of benefit units and aid in construction	189,719	89,375
Payments on long-term debt	(110,000)	(115,000)
Payments for bond issuance	-	78,903
Interest paid	(112,863)	(108,944)
Acquisition and construction of property, plant & equipment	<u>(124,305)</u>	<u>(83,939)</u>
Net cash provided by capital and related financing activities	<u>(157,450)</u>	<u>(139,605)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Miscellaneous non-operating income	<u>25,420</u>	<u>63,683</u>
Net cash provided by non capital financing activities	<u>25,420</u>	<u>63,683</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in debt reserve funds	6,401	(35,544)
Change in certificates of deposit	133,012	(3,962)
Interest received	<u>4,933</u>	<u>8,396</u>
Net cash used by investing activities	<u>144,346</u>	<u>(31,110)</u>
NET CHANGE IN CASH AND EQUIVALENTS	312,969	214,314
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>550,029</u>	<u>335,715</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 862,997</u>	<u>\$ 550,029</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 142,287	\$ 137,118
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	182,486	179,815
Changes in:		
Accounts receivable	(2,854)	(3,670)
Prepaid insurance	540	6
Accounts payable	(20,895)	9,511
Accrued liabilities	<u>(911)</u>	<u>(1,435)</u>
Net cash provided by operating activities	<u>300,654</u>	<u>321,346</u>

RURAL WATER DISTRICT NO. 6 FRANKLIN COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Organization - The Rural Water District (District) was established as a tax-exempt organization to acquire water and water rights and to build and acquire pipe lines for the purpose of furnishing water to owners and occupants of land located within the District. Total customers at September 30, 2014 and 2013 were 1,013 and 1,003, respectively.
- b. GASB Statement No. 34 – GASB Statement No. 34, known as the “Reporting Model” statement, affects the way the District prepares and presents financial information. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions, and includes:

Management’s Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to analysis the private sector provides in their annual reports. Management has elected not to prepare the MD&A for this year.

Statement of Net Assets – This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

- c. Basis of Accounting - In the Statement of Net Assets and Statement of Revenues and expenses and Changes in Net, activities are presented using the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.
- d. Cash Equivalents - For purposes of the statements of cash flows, the District considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.
- e. Accounts Receivable – Prior to May 2004, the District required its members to read their own meters on the first day of each month, or the earliest date thereafter. Payments for water service are due the 15th day of the month or will be subject to a late charge of 15%. Failure to pay for water service by the first day of the month, following the month in which the water service was provided, shall result in discontinuance of service. Starting in May 2004, the District began reading meters using radio read system. The District water rates are as follows:

Residential and Commercial:

\$ 28.50 Minimum rate, includes 0 gallons
\$ 6.25 per 1,000 gallons

City of Lane:

\$ 5.30 per 1,000 gallons

City of Rantoul:

\$ 5.30 per 1,000 gallons

- e. Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.
- f. Income Taxes - The District is a tax-exempt government entity and is not subject to federal or state income taxes.
- g. Benefit Units – Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$5,250 and are recognized when sold.
- h. Aid in Construction – Aid in Construction represents contributions from the members for line extensions.
- i. Inventory – The District does not maintain inventory; all supplies and parts are expensed when purchased.
- j. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. CASH AND DEPOSITS

The carrying amounts of the District's deposits at September 30, 2014 were \$1,635,280. The cash and deposits were covered by depository insurance or by collateral held by the District's agent in the District's name.

Under K.S.A. 12-1675, the State of Kansas limits the types of investments municipalities can invest in, including Rural Water Districts. As a result, the cash and deposits of the District are considered low risk investments.

The following represents a detail of the cash and deposits of the District:

	2014	2013
Peoples National Bank - Operating Account	\$ 331,734	\$ 111,500
Peoples National Bank - Savings	7,203	6,864
Citizen's Bank - Savings	241,391	240,725
Mid-America Bank - Savings	<u>282,669</u>	<u>190,940</u>
	<u>862,997</u>	<u>550,029</u>
Certificates of Deposit		
Peoples National Bank	\$ 43,289	43,052
Peoples National Bank	61,495	61,495
Kansas State Bank	49,583	49,361
Kansas State Bank	59,931	59,639
Patriots Bank	89,341	88,970
Bank of Greeley	-	113,149
Bank of Greeley	-	21,447
Arvest Bank	110,047	110,047
Arvest Bank	<u>5,586</u>	<u>5,124</u>
Current Portion of Certificates of Deposit	<u>\$ 419,271</u>	<u>\$ 552,284</u>

3. DEBT RESERVE FUNDS

The District is required under the Water Revenue Bond Series 2012 covenants to set asset assets for debt reserve. The following represents the assets set aside:

<u>Water Revenue Bond Series 2012</u>	<u>2014</u>	<u>2013</u>
Certificate of Deposit	\$ 120,378	\$ 120,378
Money Market	232,634	148,596
Certificate of Deposit	<u>-</u>	<u>90,439</u>
	<u>353,012</u>	<u>359,412</u>
Less current portion	<u>230,000</u>	<u>230,000</u>
	<u>\$ 123,012</u>	<u>\$ 129,412</u>

The above investments are considered low risk.

4. CAPITAL ASSETS

	2014	2013
Land and well sites	\$ 38,949	\$ 38,949
Office building	96,178	96,178
Water treatment plant and equipment	3,211,773	3,211,773
Distribution system	3,032,946	2,926,105
Tanks	639,136	639,136
Pump stations	473,990	456,526
Office equipment and vehicles	<u>96,555</u>	<u>96,555</u>
	7,589,527	7,465,222
Less accumulated depreciation	<u>3,357,105</u>	<u>3,174,619</u>
	<u>\$ 4,232,422</u>	<u>\$ 4,290,603</u>

	2014		
		Additions	Disposals
Land and Well Sites	\$ 38,949	\$	\$ 38,949
Office Building	96,178		96,178
Water Treatment Plant	3,211,773		3,211,773
Distribution System	2,926,105	106,841	3,032,946
Tanks	639,136		639,136
Pump Station	456,526	17,464	473,990
Office Equipment and Vehicles	<u>96,555</u>		<u>96,555</u>
	<u>\$ 7,465,222</u>	<u>\$ 124,305</u>	<u>\$ 7,589,527</u>

		2013		
		Additions	Disposals	
Land and Well Sites	\$ 38,949	\$	\$	\$ 38,949
Office Building	96,028	150		96,178
Water Treatment Plant	3,211,773			3,211,773
Distribution System	2,866,301	59,804		2,926,105
Tanks	639,136			639,136
Pump Station	456,526			456,526
Office Equipment and Vehicles	<u>72,570</u>	<u>23,985</u>		<u>96,555</u>
	<u>\$ 7,381,283</u>	<u>\$ 83,939</u>		<u>\$ 7,465,222</u>

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

	<u>Capitalization Policy</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	5,000	Straight Line	10-30 years
Water System	5,000	Straight Line	10-50 years
Office Equipment	5,000	Straight Line	3-7 years
Vehicles	5,000	Straight Line	10 years

5. RESTRICTED NET ASSETS

The following represents assets, which have been restricted:

Debt Reserve Funds	\$ <u>353,012</u>
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6. LONG-TERM DEBT

In 2013, the District issued Water Revenue Bonds Series 2012 in the amount of \$3,285,000 (\$3,060,000 outstanding at September 30, 2014) in order to refinance the existing Rural Development Loan. The bonds bear interest at rates ranging from 1.0 to 4.375%. Repayment on the bonds begins May 2014. Based on the current outstanding balance, the District will make semi-annual principal and interest payments over a 21 year period. Revenues of the District have been pledged as security.

As part of the bond covenant, the District is required to maintain a debt service coverage ratio of 1.25, which took effect at the conclusion of the project, and establish a loan reserve account in the amount of 10% of the unpaid principal.

Roll forward of long-term debt:					
	<u>Beginning Balance</u>	<u>Advances</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Water Revenue Bonds Series 2013	\$ 3,170,000	\$ -	\$ 110,000	\$ 3,060,000	\$ 110,000

Maturities of the loan for years subsequent to October 31, 2014 are as follows:

Water Revenue Bonds Series 2012

	Principal	Interest	Total
2015	115,000	111,199	226,199
2016	115,000	109,330	224,330
2017	115,000	107,174	222,174
2018	120,000	104,674	224,674
2019	120,000	101,824	221,824
2020	125,000	98,574	223,574
2021	130,000	94,809	224,809
2022	135,000	90,600	225,600
2023	140,000	85,606	225,606
2024	145,000	79,906	224,906
2025	150,000	7,006	157,006
2026	155,000	67,906	222,906
2027	160,000	61,606	221,606
2028	170,000	54,688	224,688
2029	175,000	47,141	222,141
2030	180,000	39,375	219,375
2031	190,000	31,281	221,281
2032	200,000	22,750	222,750
2033	205,000	13,891	218,891
2034	215,000	4,703	219,703
	<u>\$ 3,060,000</u>	<u>\$ 1,334,043</u>	<u>\$ 4,394,043</u>

7. CONCENTRATION OF CREDIT RISK

The District is engaged in the sale of water to customers located primarily in Franklin and Miami Counties, Kansas. The District grants credit to those customers and requires no collateral. The District sells water to the Cities of Rantoul, Lane and Central Heights, which accounts for 9% of the gallons sold in 2014.

8. PENSION PLAN

The District's full-time employees participate in the Kansas Public Employees Retirement System ("System"), a multiple employer public employee retirement system. The payroll for employees covered by the System for 2014 was \$147,798. The District's total payroll for 2014 was \$153,731.

Covered employees are required by state statute to contribute 4% of their salary to the System. The District is required by statute to contribute 8.6% for calendar year 2014, plus 1.0% for death and disability insurance. KPERS uses the full-funding method, which funds current costs each year and past service liability over a 40-year period. The contribution requirements for the year ended September 30, 2014 consisted of \$8,030 from employees, and \$13,977 from the District.

9. WATER SALES CONTRACT

In 1998, the District entered into contracts to sell water to the Cities of Rantoul and Lane, Kansas (Cities). Under the contract, the Cities will pay the District \$5.30 per 1,000 gallons and a fixed monthly fee of \$300. In addition, the Cities may not purchase more than 35,000 gallons per day.

10. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the year ended September 30, 2014.

11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, and injuries to employees. The District manages these various risks of loss through various insurance policies. See supplemental schedule for details of the various insurance policies.

12. COMPENSATED ABSENCES

Each full-time employee earns vacation for the years that the employee has been employed. After the first year of service an employee earns 40 hours of vacation and after three years, 80 hours is earned. Vacation time is lost if not used in the year earned. Additionally, each full-time employee earns sick time each year, however, accumulated sick time cannot be compensated upon termination of employment.

13. NET INVESTMENT IN CAPITAL ASSETS

The following represents the net investment in capital assets:

Property, plant and equipment, net	\$	4,232,422
Outstanding debt		<u>(3,060,000)</u>
	\$	<u>1,172,422</u>

14. RELATED PARTIES

The members of the board and the employees are within in the District boundaries and receive water from the District.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events from the date of the financial statements through October 30, 2014, the date the financial statements were available to be issued, and determined there are no other items to disclose.

**RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS**

**SCHEDULE OF STATISTICAL INFORMATION
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	2014	2013
Gallons sold	70,661,400	69,193,600
Number of benefit units	1,013	1,003
Average monthly usage per benefit unit	5,291	5,369
Average monthly water sale per benefit unit	\$ 64.05	\$ 63.78
Average monthly operating expenses per benefit unit	\$ 52.36	\$ 52.40
Average monthly interest expense per benefit unit	\$ 9.28	\$ 9.05
Average monthly depreciation per benefit unit	\$ 15.01	\$ 14.94
Gallons sold to the City of Rantoul and Lane	6,456,000	5,784,000