

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

Year Ended October 31, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Net Assets	3 - 4
Statement of Activities and Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13
Supplementary Information:	
Budget Comparison	14
Insurance Coverage	15

GROFF & BERRY CPA'S, INC.

Certified Public Accountants

Suite 402 Jayhawk Tower

700 Southwest Jackson

Topeka, Kansas 66603-3744

(785) 233-6952

Fax (785) 233-7220

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 6
Osage County, Kansas

We have audited the accompanying financial statements of the Rural Water District No. 6, Osage County, Kansas, as of and for the year ended October 31, 2014, which comprise the District's basic financial statements as listed in the table of contents, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the guidance in the Kansas Municipal Audit and Accounting Guide (KMAAG). Those standards and guidance 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.

Auditor's Responsibility (Continued)

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 opinions.

Opinions

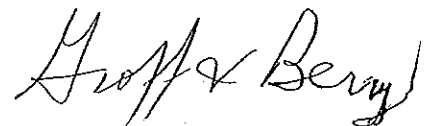
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Rural Water District No. 6, Osage County, Kansas, as of October 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

The District has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 3, 2015



RURAL WATER DISTRICT NO. 6
Osage County, Kansas

STATEMENT OF NET ASSETS
October 31, 2014

ASSETS

Current assets:	
Cash - checking	\$ 40,456
Accounts receivable	15,999
Other receivables	-
Prepaid insurance	<u>1,155</u>
Total current assets	<u>57,610</u>
Noncurrent assets:	
Restricted cash - checking	1,758
Restricted cash - savings	<u>6,854</u>
	<u>8,612</u>
Capital assets:	
Property, plant and equipment:	
Land and easements	3,233
Water system	1,612,680
Office equipment	3,565
Construction in progress	<u>8,528</u>
	1,628,006
Less: accumulated depreciation	<u>425,763</u>
	<u>1,202,243</u>
Total assets	<u>\$ 1,268,465</u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

STATEMENT OF NET ASSETS
October 31, 2014

LIABILITIES AND NET ASSETS

Current liabilities:		
Notes payable	\$ 10,760	
Accounts payable	8,663	
Accrued expense	1,298	
Meter application deposits	<u>2,000</u>	
Total current liabilities		\$ 22,721
Noncurrent liabilities:		
Notes payable		483,248
Net assets:		
Invested in capital assets, net of related debt	708,235	
Restricted for debt service	8,612	
Unrestricted	<u>45,649</u>	
Total net assets		<u>762,496</u>
Total liabilities and net assets		<u>\$ 1,268,465</u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

STATEMENT OF ACTIVITIES AND
CHANGES IN NET ASSETS
Year Ended October 31, 2014

Operating revenues:		
Water sales	\$ 66,189	
Debt service charges	58,955	
Penalties	1,301	
Miscellaneous	2,700	
Reimbursed expense	<u>993</u>	
Total operating revenues		\$ 130,138
Operating expenses:		
Water purchased	60,787	
Supplies and repairs	6,630	
Utilities	3,547	
Office supplies and expense	3,228	
Insurance	2,471	
Salaries	10,985	
Mileage reimbursement	1,665	
Professional fees	4,595	
Testing	166	
Dues	196	
Miscellaneous	3,346	
Water plan fees	586	
Payroll taxes	848	
Depreciation	<u>34,821</u>	
Total operating expenses		<u>133,871</u>
Net operating loss		(3,733)
Non-operating income (expense):		
Interest income	81	
Interest expense	(18,243)	
Meter purchase	3,000	
Grant income	<u>3,750</u>	<u>(11,412)</u>
Changes in net assets		(15,145)
Net assets, beginning of year		<u>777,641</u>
Net assets, end of year		<u>\$ 762,496</u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

STATEMENT OF CASH FLOWS
Year Ended October 31, 2014

Cash flows from operating activities:	
Receipts from customers	\$ 126,656
Payments to suppliers	(99,399)
Other receipts	<u>3,693</u>
Net cash provided by operating activities	30,950
Cash flows from capital and related financing activities:	
Principal paid on notes	\$ (10,331)
Interest paid on notes	(18,182)
Construction in progress	(4,028)
Meter application deposits	3,200
Water system equipment	(468)
Grant revenue	<u>3,750</u>
Net cash used by capital and related financing activities	(26,059)
Cash flows from investing activities:	
Interest received	65
Restricted cash	<u>16</u>
Net cash provided by investing activities	<u>81</u>
Net increase in cash and cash equivalents	4,972
Cash, beginning of year	<u>35,484</u>
Cash, end of year	<u><u>\$ 40,456</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:	
Operating loss	\$ (3,733)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	34,821
Change in assets and liabilities:	
Receivables and prepaids	188
Payables	(357)
Accrued expense	<u>31</u>
Net cash provided by operating activities	<u><u>\$ 30,950</u></u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies

Equity and Basis of Accounting

The District was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the patrons of the District, have decision-making authority, power to designate management, the ability to influence operations and primary accountability for fiscal matters.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all checking and unrestricted certificates of deposit are considered to be cash equivalents.

Capital Assets - Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Membership

The sales price of benefit unit certificates is considered a contribution to the District. Contributions for meter setbacks and extensions from November 1, 1998 are also considered a contribution to the District. These are reported as "members' contributions." At October 31, 2014, the District had sold 199 benefit units.

Income Recognition

Water sales are recorded when collected. It is not practical to estimate service receivables at year end and such amounts are not material to the financial statements taken as a whole.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Income Taxes

Rural Water District No. 6, Osage County, Kansas, is a tax-exempt entity and not subject to income taxes at either the federal or State level.

Budget

The District has not been required to operate under the Kansas budget laws. For the fiscal year ending October 31, 2014, a budget was required by Rural Development.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

2 - Restricted Assets

The District is using the reserve savings account and a portion of the cash in bank - checking at Lyndon State Bank to meet all loan reserve requirements at October 31, 2014, as follows:

Rural Development Administration	Loan 02	\$ 6,910
Rural Development Administration	Loan 04	<u>1,702</u>
Total		<u>\$ 8,612</u>
Account balance as of October 31, 2014		<u>\$ 8,612</u>

3 - Capital Assets - Property, Plant and Equipment

Capital assets - property, plant and equipment activity for the year ended October 31, 2014 was as follows:

	<u>October 31,</u> <u>2013</u>	<u>Additions</u> <u>(Deductions)</u>	<u>October 31,</u> <u>2014</u>
Land and easements	\$ 3,233	\$ -	\$ 3,233
Water system	1,612,212	468	1,612,680
Construction in progress	4,500	4,028	8,528
Office Equipment	<u>3,565</u>	<u>-</u>	<u>3,565</u>
	<u>\$ 1,623,510</u>	<u>\$ 4,496</u>	<u>\$ 1,628,006</u>

Depreciation expense was \$ 34,821 for the year ended October 31, 2014.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Long-Term Debt - Notes Payable

Long-term debt consisted of the following:

During a prior year the District borrowed \$ 395,000 from the United States Department of Agriculture - Rural Development on a Real Estate Mortgage (Insured Rural Water District Loan), dated May 9, 2011 for 40 years. The monthly payment is \$ 1,474, including interest of 3.25%. A portion of the proceeds was used to pay off the mortgage payable to Berkadia Commercial Mortgage on May 15, 2011. The loan is secured by all of the District's revenue and income, accounts, contract rights, water purchase contracts and general intangibles, now owned or hereafter acquired.

There are two other loans due to Rural Development dated February 10, 1998, payable for 40 years. The monthly payments are \$ 731, including interest at 4.875%.

During the prior year, the District borrowed \$ 9,066 from the Lyndon State Bank, Lyndon, Kansas on January 23, 2012 at 5% per annum, payable over sixty months at \$ 171 per month.

Loan balances and maturity dates are as follows:

<u>Maturity Date</u>	<u>October 31, 2014</u>
February 10, 2038	\$ 89,196
February 10, 2038	22,920
May 12, 2051	377,532
January 23, 2017	<u>4,360</u>
	<u>\$ 494,008</u>

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Long-Term Debt - Notes Payable (Continued)

Maturities for the loans are as follows:

<u>Year Ending October 31,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 10,760	\$ 17,753
2016	11,206	17,307
2017	10,106	16,868
2018	9,976	16,484
2019	10,370	16,090
2020 - 2024	58,377	73,923
2025 - 2029	71,026	61,274
2030 - 2034	82,711	45,788
2035 - 2039	60,556	32,521
2040 - 2044	66,135	22,305
2045 - 2049	77,787	10,653
2050 - 2051	<u>24,998</u>	<u>622</u>
	494,008	\$ <u>331,588</u>
Less: current maturities	<u>10,760</u>	
	<u>\$ 483,248</u>	

The following is a detailed listing of the District's long-term debt:

<u>Debt Issue</u>	<u>Interest Rates</u>
Installment promissory notes:	
Water system	4.875%
Water system	4.875%
Water system	3.250%
Water system	5.000%

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Long-Term Debt - Notes Payable (Continued)

The following is a summary of changes in long-term debt for the year ended October 31, 2014:

<u>Debt Issue</u>	<u>Beginning Principal Outstanding</u>	<u>Additions to Principal</u>	<u>Reductions of Principal</u>	<u>Ending Principal Outstanding</u>
Installment promissory notes:				
Water system	\$ 91,880	\$ -	\$ 2,684	\$ 89,196
Water system	23,456	-	536	22,920
Water system	382,857	-	5,325	377,532
Water system	<u>6,146</u>	<u>-</u>	<u>1,786</u>	<u>4,360</u>
	<u>\$ 504,339</u>	<u>\$ -</u>	<u>\$ 10,331</u>	<u>\$ 494,008</u>

5 - Deposits

Kansas State Statutes authorize the District, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements and U.S. Treasury bills and notes. Statutes also require that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the District.

At October 31, 2014, the carrying amount of the District's deposits was \$ 49,069 and the bank balance was \$ 49,316, all of which was covered by federal deposit insurance.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - Water Purchase Contract

On April 1, 1977, the District entered into a contract with Rural Water District No. 7, Osage County, Kansas, for the purchase of water. The original contract allowed for annual modification to the original rate of \$ 1.00 per 1,000 gallons of water. The current price is \$ 5.35 per 1,000 gallons of water.

The District's water purchases for the year ended October 31, 2014 are summarized as follows:

<u>Gallons Purchased</u>	<u>Rate</u>	<u>Amount</u>
11,530,000	\$ 5.20/5.35	\$ 60,787

During the year October 31, 2004, the District entered into conversations with Rural Water District No. 7, Osage County, Kansas, regarding the price of water purchased per the contract. As a result, the two Boards have voted unanimously to pursue consolidation of the two Districts; however, at October 31, 2014, no further progress has been accomplished.

7 - Related Party

During a prior year, a Board officer was hired as the maintenance man for the District, to be compensated on an hourly rate and reimbursed for mileage. During the year ended October 31, 2014, \$ 3,195 was paid in salary and \$ 1,845 was paid for mileage reimbursement.

8 - Water Sales

During the year ended October 31, 2014, the District sold approximately 9,381,871 gallons of water. The water rates were \$ 7.00 per 1,000 gallons. For the year ended October 31, 2014, the approximate water loss was 21%.

The District, at a special meeting on August 16, 2011, approved increasing the water rates as follows:

Minimum (Debt Service Charge)	\$ 25.00
Water (Per 1000 Gallons)	7.00

The penalty figures at 10% per month on unpaid balances and the State water plan fee is \$ 0.032 per 1,000 gallons included in water price, unchanged from previous rates.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - Officers and Board Members

The officers and board members of the District for the year ended October 31, 2014 are as follows:

John Davied - Chairman
Don Garrett - Vice-Chairman
Gerald McMillen - Secretary
Dan Dehn - Treasurer
Roy Habegger - Member
Loren Eissler - Member
Randy Chenoweth - Member

10 - Kan Step Grant Application

During January 2013, a hearing was held by the Osage County Commissioners to discuss a Kan Step Grant Application on behalf of Osage County Rural Water District No. 6. The maximum Kan Step grant that may be requested is \$ 300,000.

The County of Osage proposes to build a 30' by 50' building, located at the Districts' Water Tower site. The building will consist of an office, meeting room, restrooms, storage room, booster pump station, and chlorination room. Also included will be a road crossing and connection to Public Wholesale Water Supply District No. 12.

The Grant Agreement No. 13-ST-005 shall commence on September 15, 2013 and complete September 14, 2015. The Community Development Program will provide \$ 183,624 and the District will provide \$ 142,972, plus an additional \$ 5,000 for engineering design and administration.

As of October 31, 2014, \$ 3,750 was paid by the Grant for administrative expenses.

11 - Subsequent Events

Management has reviewed subsequent events through February 3, 2015.

SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

BUDGET COMPARISON
Year Ended October 31, 2014

	<u>Actual</u>	<u>Budget</u>	Variance - Favorable (Unfavorable)
Revenues:			
Water sales	\$ 66,189	\$ 75,000	\$ (8,811)
Debt service charges	58,955	58,000	955
Penalties	1,301	2,300	(999)
Miscellaneous	3,693	4,500	(807)
Interest income	<u>81</u>	<u>80</u>	<u>1</u>
Total revenues	<u>130,219</u>	<u>139,880</u>	<u>(9,661)</u>
Expenditures:			
Water purchased	60,787	65,000	4,213
Repairs and maintenance	6,630	8,000	1,370
Salary	10,985	11,000	15
Utilities	3,547	2,800	(747)
Professional services	4,595	5,000	405
Debt retirement (interest expense)	18,243	18,181	(62)
Miscellaneous	4,294)	
Office supplies and expense	3,228)	
Insurance	2,471)	
Payroll taxes	848) 8,500	(2,341)
Mileage reimbursement	1,665	1,900	235
Depreciation	<u>34,821</u>	<u>34,727</u>	<u>(94)</u>
Total expenditures	<u>152,114</u>	<u>155,108</u>	<u>2,994</u>
Net revenues over (under) expenditures	<u>\$ (21,895)</u>	<u>\$ (15,228)</u>	<u>\$ (6,667)</u>

See accompanying independent auditor's report.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

INSURANCE COVERAGE
Year Ended October 31, 2014

The District's insurance policy is provided by EMC Insurance Companies through Bolz Insurance, Inc., with a premium of \$ 2,344 and covers the period April 9, 2014 to April 9, 2015. It provides the following coverage:

	<u>Coverage</u>
Commercial property:	
Water tower (90% replacement cost)	\$ 226,237
Pump station (90% replacement cost) (\$1,000 deductible)	82,182
Commercial general liability:	
Liability	1,000,000/1,000,000
Bodily injury and property damage	500,000/500,000
Damage to rented premises	100,000
Medical expense	5,000
Linebacker declarations:	
Liability	1,000,000/1,000,000
Deductible per loss	1,000
Position schedule bond:	
Treasurer (January 17, 2013 to January 17, 2014)	30,000

See accompanying independent auditor's report.