

BUTLER COUNTY RURAL WATER DISTRICT NO. 1
FINANCIAL STATEMENTS
December 31, 2017 and 2016
With Independent Auditor's Report

CONTENTS

	Page
Independent Auditor's Report	1-2
Comparative Financial Statements	
Balance Sheets	3
Statements of Operations and Changes in Fund Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6-7
Supplementary Information	
Schedule of Insurance Coverage	8



KIRKPATRICK, SPRECKER & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Butler County Rural Water District No. 1

We have audited the accompanying financial statements of Butler County Rural Water District No. 1, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations 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; 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 and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 Butler County Rural Water District No. 1 as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Butler County Rural Water District No. 1

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Insurance Coverage, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Kirkpatrick, Sprecker & Company, LLP". The signature is written in a cursive, flowing style.

KIRKPATRICK, SPRECKER & COMPANY, LLP
Wichita, Kansas

February 7, 2018

BUTLER COUNTY RURAL WATER DISTRICT NO. 1
COMPARATIVE BALANCE SHEETS
December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 382,846	\$ 413,348
Accounts receivable - customers	11,006	11,566
Accrued interest receivable	129	129
Inventory	1,204	1,341
Property and equipment, at cost		
Water system and improvements	982,527	933,387
Less - accumulated depreciation	<u>527,540</u>	<u>495,026</u>
Property and equipment - net of depreciation	<u>454,987</u>	<u>438,361</u>
 Total assets	 <u><u>850,172</u></u>	 <u><u>864,745</u></u>

LIABILITIES AND FUND EQUITY

Liabilities		
Accounts payable	\$ 8,018	\$ 8,701
Kansas sales tax payable	250	274
Unearned revenue	<u>1,000</u>	<u>1,000</u>
Total liabilities	<u>9,268</u>	<u>9,975</u>
 Fund equity		
Unreserved	<u>840,904</u>	<u>854,770</u>
Total fund equity	<u>840,904</u>	<u>854,770</u>
 Total liabilities and fund equity	 <u><u>850,172</u></u>	 <u><u>864,745</u></u>

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

BUTLER COUNTY RURAL WATER DISTRICT NO. 1
COMPARATIVE STATEMENTS OF OPERATIONS AND CHANGES IN FUND EQUITY
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenue		
Sale of water	\$ 140,004	\$ 148,161
New meters	2,800	2,800
Miscellaneous	370	810
Total operating revenue	<u>143,174</u>	<u>151,771</u>
Operating expenses		
Water purchases	45,252	62,088
System repairs	17,543	26,057
Depreciation	32,515	29,686
Accounting and office services	14,684	14,455
Maintenance contract	26,100	18,098
Connections	-	921
Miscellaneous	5,037	4,903
Independent audit	3,600	3,500
Office supplies and postage	3,955	4,052
Utilities	3,151	3,381
Insurance	3,118	3,147
Engineering	-	100
Water protection fee	826	860
Telephone	1,256	1,221
Supplies	338	428
Water testing	813	1,415
Legal	-	75
Total operating expenses	<u>158,188</u>	<u>174,387</u>
Loss from operations before interest earned	<u>(15,014)</u>	<u>(22,616)</u>
Other income		
Interest earned	<u>1,148</u>	<u>1,300</u>
Total other income	<u>1,148</u>	<u>1,300</u>
Net loss	(13,866)	(21,316)
Fund equity at beginning of year	<u>854,770</u>	<u>876,086</u>
Fund equity at end of year	<u><u>840,904</u></u>	<u><u>854,770</u></u>

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

BUTLER COUNTY RURAL WATER DISTRICT NO. 1
COMPARATIVE STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net loss	\$ (13,866)	\$ (21,316)
Adjustments to reconcile net income to net cash provided by (applied to) operating activities:		
Depreciation	32,515	29,686
Decrease in inventory	136	532
Decrease in accounts receivable - customers	560	1,117
Decrease in accounts payable - trade	(683)	(2,609)
Decrease in Kansas sales tax payable	(24)	(405)
Net cash provided by operating activities	<u>18,638</u>	<u>7,005</u>
Cash flows from investing activities		
Purchase of property assets	<u>(49,140)</u>	<u>(27,645)</u>
Net cash applied to investing activities	<u>(49,140)</u>	<u>(27,645)</u>
Net decrease in cash and cash equivalents	(30,502)	(20,640)
Cash and cash equivalents at beginning of year	<u>413,348</u>	<u>433,988</u>
Cash and cash equivalents at end of year	<u><u>382,846</u></u>	<u><u>413,348</u></u>

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

BUTLER COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. Summary of significant accounting policies

Description of operations

Butler County Rural Water District No. 1 (the District) provides water to farms and rural residents of Butler County within the District. The District extends credit to customers, substantially all of whom are local residents. There were 252 benefit unit holders within the District at December 31, 2017 and 2016.

Basis of accounting

The District has established a system of accounting to reflect compliance with the applicable laws of the State of Kansas. The accounts used are accounted for as an enterprise fund since it is the stated intent that costs of providing water service to benefit units on a continuing basis be financed or recovered primarily through user charges. The accrual basis of accounting is used.

U.S. generally accepted accounting principles for governmental units require that *Management's Discussion and Analysis* introduce the basic financial statements and provide management's analytical overview of the District's financial activities. These financial statements are not accompanied by *Management's Discussion and Analysis*.

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 those estimates.

Tax returns

The District is a Kansas Municipality and is not required to file Federal or State income tax returns.

Property, equipment, and depreciation

The cost of the water system is depreciated on the straight-line method over an estimated useful life of fifty years. The costs of other property assets are depreciated on the straight-line method over an estimated useful life of ten years.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash in banks, and all highly liquid debt instruments purchased with a maturity of three months or less, and certificates of deposits with local banks.

Accounts receivable

Accounts receivable arise from the sale of water and are stated at the unpaid balance. There is no interest charged on unpaid balances. The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible they are charged to operations when that determination is made.

Inventory

Inventory consists of water meters and other materials and is stated at cost.

Unearned revenue

Proceeds received from line extensions and the sale of meters are not recognized as revenue until the District has completed the line extensions and set the meters.

BUTLER COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

2. Compliance with Kansas statutes

There were no statutory violations during the years ended December 31, 2017 and 2016.

3. Concentrations and risks

A majority of the District's water is purchased from the City of El Dorado, Kansas.

The District is subject to the annexation in part or in whole by other municipalities.

4. Related parties

All board members of the District are also benefit unit owners and customers, as required under the District's by-laws.

5. FDIC coverage and other security for cash deposits

The District's cash deposits were adequately secured by FDIC insurance or pledged depository security during the years ending December 31, 2017 and 2016.

6. Commitments

In 2015, the District signed an agreement to purchase meters for approximately \$84,000. As of December 31, 2017, the cost to the District for the remaining meters is approximately \$8,850.

7. Subsequent events

The District has evaluated subsequent events through February 7, 2018, the date which the financial statements were available to be issued, and none requiring disclosure were identified.

SUPPLEMENTARY INFORMATION

BUTLER COUNTY RURAL WATER DISTRICT NO. 1
SCHEDULE OF INSURANCE COVERAGE*
December 31, 2017

Coverage	Amount
Insurer: Insurance Center, Inc.	
Annual Premium: \$4,094	
Policy Expires: January 16, 2018	
Commercial General Liability Schedule:	
General Aggregate Limit	\$ 2,000,000
Products/completed operations aggregate limit	\$ 2,000,000
Personal and advertising injury limit	\$ 1,000,000
Each occurrence limit	\$ 1,000,000
Fire damage limit (any one fire)	\$ 100,000
Medical expense limit (any one person)	\$ 5,000
Fire and allied perils:	
Tanks, bins, and silos	\$ 399,256
Water lift pumps	\$ 79,852
Coinsurance is 80% with \$2,500 deductible	
Computer and electronic data processing	\$ 12,000
Coinsurance is 80% with \$500 deductible	
Wrongful acts coverage:	
Each loss limit	\$ 1,000,000
Aggregate limit for policy term	\$ 1,000,000
Deductible: \$1,000	

This schedule was prepared from policies submitted to Kirkpatrick, Sprecker & Company, LLP, for inspection and is intended only as a descriptive summary; no expression of opinion as to the adequacy of the coverage is intended.

