BUTLER COUNTY RURAL WATER DISTRICT NO. 6

FINANCIAL STATEMENTS

With Independent Auditor's Report

December 31, 2021 and 2020

REGIER CARR & MONROE, LLP, CPAs

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Butler County Rural Water District No. 6
El Dorado, Kansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Butler County Rural Water District No. 6 which comprise the balance sheets as of December 31, 2021 and 2020 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.

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. 6 as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended are in accordance with accounting principles generally accepted in the United States of America.

Management has omitted 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Butler County Rural Water District No. 6 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion.

Responsibilities of Management 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 and Accounting 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Butler County Rural Water District No. 6's ability to continue as a going concern for one year after the date that the financial statements are issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

• Exercise professional judgment and maintain professional skepticism throughout the audit.
• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
• Obtain an understanding of internal control relevant to the audit 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 Butler County Rural Water District No. 6's internal control. Accordingly, no such opinion is expressed.
• Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
• Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Butler County Rural Water District No. 6's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 and Schedule of Statistical Information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Regier Carr & Monroe, LLP

Wichita, Kansas
April 8, 2022

Butler County Rural Water District No. 6
Balance Sheets
December 31, 2021 and 2020

ASSETS

	2021	2020
Cash and cash equivalents	$ 1,515,986	$ 1,537,062
Accounts receivable - customers	67,853	57,814
Notes receivable	35,420	66,937
Accrued interest receivable	1,696	1,696
Inventory - materials	8,845	5,758
Property and equipment, at cost		
Water system equipment and improvements	8,666,055	8,662,555
Less accumulated depreciation	5,515,432	5,348,025
Property and equipment net of depreciation	3,150,623	3,314,530
Loan reserve deposit held by KDHE	148,247	148,247
Total assets	$ 4,928,670	$ 5,132,044

LIABILITIES AND FUND EQUITY

Liabilities		
Accounts payable - operating	$ 44,590	$ 42,548
Unearned revenue	37,900	18,240
Loan payable	1,295,578	1,354,921
Total liabilities	1,378,068	1,415,709
Fund equity		
Reserved	148,247	148,247
Unreserved	3,402,355	3,568,088
Total fund equity	3,550,602	3,716,335
Total liabilities and fund equity	$ 4,928,670	$ 5,132,044

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

Butler County Rural Water District No. 6
Statements of Operations and Changes in Fund Equity
For the Years Ended December 31, 2021 and 2020

	2021	2020
Operating revenue		
Sale of water	$ 735,348	$ 707,461
New meters	15,540	17,400
Miscellaneous	35,056	5,435
Total operating revenue	785,944	730,296
Operating expenses		
Water purchases	320,344	355,956
Systems repairs	69,814	65,031
Depreciation	167,408	231,397
Accounting and office services	38,028	51,700
Maintenance contract	77,751	55,983
Connections	16,542	11,543
Engineering	29,753	300
Utilities	31,186	29,916
Miscellaneous	35,378	12,023
Insurance	26,103	19,626
Independent audit	5,300	5,200
Payroll	48,608	-
Supplies	47,384	63,230
Office supplies and postage	7,829	7,958
Water protection fee	3,288	3,300
Water testing	3,845	459
Legal	-	263
Telephone	2,467	1,732
Total operating expenses	931,028	915,617
Earnings (Loss) from operations	(145,084)	(185,321)
Other income (expense)		
Interest earned	6,132	10,774
Interest expense	(26,781)	(27,493)
Total other income (expense)	(20,649)	(16,719)
Net income (loss)	(165,733)	(202,040)
Fund equity at beginning of year	3,716,335	3,918,375
Fund equity at end of year	$ 3,550,602	$ 3,716,335

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

Butler County Rural Water District No. 6
Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income (loss)	$ (165,733)	$ (202,040)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	167,407	231,397
Changes in:		
Accounts receivable - customers	(10,039)	6,319
Inventory - materials	(3,087)	4,330
Accrued Interest Receivable	-	(598)
Accounts payable - operating	2,042	10,734
Unearned revenue	19,660	-
Net cash provided by operating activities	10,250	50,142
Cash flows from investing activities		
Principal received on notes receivable	31,517	29,970
Purchase of property assets	(3,500)	(25,154)
Net cash provided by investing activities	28,017	4,816
Cash flows from financing activities		
Repayment of bond	(59,343)	(60,222)
Net cash used by financing activities	(59,343)	(60,222)
Net decrease in cash and cash equivalents	(21,076)	(5,264)
Cash and cash equivalents at beginning of year	1,537,062	1,542,326
Cash and cash equivalents at end of year	$ 1,515,986	$ 1,537,062

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

Butler County Rural Water District No. 6
Notes to Financial Statements
December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies

Nature of Operations
The Rural Water District (District) was established as a tax-exempt organization to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the district. The total customers as of December 31, 2021 and 2020 were 996 and 990, respectively.

Basis of Reporting
The District has established a system of accounting to reflect compliance with the applicable laws of the State of Kansas. 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.

The Balance Sheet displays the financial position of the District. The District reports all capital assets, including infrastructure. The net position of the District is reflected in two categories: 1) reserved and 2) unreserved.

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 & 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 expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash equivalents
For purposes of reporting cash flows, cash includes cash deposited in banks and money market accounts. Cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less. There were no such cash equivalents at December 31, 2021 and 2020.

Accounts Receivable from Members
Accounts receivables arise from the sale of water and are stated at the unpaid balance. There is no interest charge 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 will be charge to operations when that determination is made.

Notes receivable
Notes receivable are stated at unpaid principle balances and interest is recognized as earned.

Note 1. Summary of Significant Accounting Policies *(Continued)*

Inventory
Inventory consists of materials and meters not yet placed into service and are stated at the lower of cost or market.

Property, Equipment and Depreciation
Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated 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 betterments are capitalized.

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

Amortization
Issuance costs of bonds payable are amortized under the straight-line method of the repayment terms of the bond. The unamortized issuance costs are netted against the payable balance. Amortization expense is included in interest expense.

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

Operating Revenues and Expenses
The District recognizes revenue from water sales at the time the meters are read. The District does not estimate the usage from the meter read date to the end of the month; this practice has been consistently applied. Late charges are recognized when the District is preparing monthly utility bills and the member is past-due in accordance to the By-Laws of the District.

Expenses are recognized in the period which the service was incurred, or the product was received.

Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing the sale of water in connection with ongoing operations. Non-operating revenues and expenses include those derived from capital and related financing activities, non-capital financing activities, and investing activities.

Note 2. Notes receivable

The following is summary of notes receivable at December 31, 2021 and 2020:

	2021	2020
Not receiveable from the City of Douglas originating in 1982, for its share of the cost of the Phase II rural water system. The note is due in monthly installments of $2,423 through September 2022, including interest at the rate of 5.0523%.	$ 19,028	$ 46,398
Note receivables from the City of Leon originating in 1986, for its water system connection charge. The note is due in monthly installments of $423 through June 2025, including interest at the rate of 5%.	16,392	20,539
	$ 35,420	$ 66,937

The scheduled receipt of interest and principal as of December 31, 2021 are as follows:

	Interest	Principal	Total
2022	$ 1,172	$ 23,609	$ 24,781
2023	498	4,582	5,080
2024	263	4,816	5,079
2025	40	2,413	2,453
	$ 1,973	$ 35,420	$ 37,393

The notes receivable were considered to be current as of December 31, 2021 and 2020.

Note 3. Loan payable

The District has a loan payable to KDHE. The District must make semi-annual payments of principal and interest, of $45,429. As of December 31, 2021 and 2020, the loan payable balance was $1,295,578 and $1,354,921, respectively.

	Interest	Principal	Total
2022	$ 29,198	$ 61,660	$ 90,858
2023	27,796	63,062	90,858
2024	26,362	64,496	90,858
2025	24,664	66,194	90,858
2026 and thereafter	186,423	1,040,166	1,226,589
	$ 294,443	$ 1,295,578	$ 1,590,021

The District has a loan agreement with the State, which includes certain restrictive covenants, including a debt service coverage ratio. The District was in compliance with the debt service coverage ratio as of December 31, 2021 and 2020. In the Event of Default, KDHE may enforce the performance or observance of any obligation or agreement of KDHE including, but not limited to, cancellation of the Loan Agreement and acceleration of the remaining schedule principal payments.

As part of the loan agreement with the State, a reserve account has been established with the State and funded with proceeds from the loan. The reserve account will be used to prevent default on the loan in the event the District is unable to make scheduled payments on the loan. The balance of this fund shall not be less than 10% of the original loan amount. The reserve fund has been invested by the State with the earnings to be applied to future loan repayments made by the District. As of December 31, 2021 and 2020, the balance of the reserve account was $148,247.

Note 4. Operating lease agreement

In January 2019, the District signed a six-year lease agreement for office space. Future minimum rental payments required under the operating lease are as follows:

	Amount
2022	$ 7,200
2023	7,200
2024	7,200
	$ 21,600

Rent expense was $7,425 and $8,300 for the years ended December 31, 2021 and 2020, respectively.

Note 5. 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 insurance policies through Employers Mutual Casualty Company. See supplemental schedule for details of the various insurance policies.

Note 6. 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 District. There were no apparent statutory violations during the years ended December 31, 2021 and 2020.

Note 7. Concentrations and Risks

Over 95% of the District's water is purchased from the City of El Dorado.

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

Note 8. Subsequent Events

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through April 8, 2022, the date the financial statements were made available to be issued.

SUPPLEMENTARY INFORMATION

BUTLER COUNTY RURAL WATER DISTRICT No. 6
SCHEDULE OF INSURANCE COVERAGE
December 31, 2021

Insurer: Insurance Center, Inc.
Annual Premium: $28,209
Policy Expires: 5/20/2022

Coverage	Limits
General Liability	
General Aggregate, Other Than Products	$2,000,000
General Aggregate, Products and Completed Operations	$2,000,000
Personal and Advertising Injury	$1,000,000
Each Occurrence	$1,000,000
Damage to Rented Premises	$300,000
Automotive Liability	$1,000,000
Medical Expense Any One Person	$5,000
Property	
Water Towers (100% Co-insurance, $2,500 Deductible, 10% on Earthquake)	$4,149,870
Pump Stations (100% Co-insurance, $2,500 Deductible, 10% on Earthquake)	$2,731,560
Buildings (100% Co-insurance, $2,500 Deductible, 10% on Earthquake)	$210,120
Remote Units (100% Co-insurance, $2,500 Deductible, 10% on Earthquake)	$157,590
Business Personal Property/Office (80% Co-insurance, $2,500 Deductible, 10% on Earthquake)	$10,506
Blanket (90% Co-insurance, $2,500 Deductible, 10% on Earthquake)	$7,259,646
Blanket: except Earthquake	$7,249,140
Inland Marine	
Generators (2), Trailers (3), Portable Monitor, Aqua Scope, Test Pump, Polytank, Metal Detector (80% Co-insurance, $250 Deductible)	$50,411
Public Officials Liability	
Aggregate For Each Policy Term	$2,000,000
Each Loss	$1,000,000
Insured Deductible Each Claim (Including Defense Expense)	$1,500
Cyber Liability	
Data Compromise Coverage – Response Expenses Limit	$50,000
Cyber Coverage – Computer Attack Limit	$100,000
Deductible	$1,000
Electronic Data Processing	
Billing Hardware & Software (80% Co-insurance, $500 Deductible)	$21,424
Workers Compensation	
Employers Liability: Each Accident	$1,000,000
Employers Liability: Disease – Policy Limit	$1,000,000
Employers Liability: Disease – Each Employee	$1,000,000
Workers Compensation: Statutory Benefit	Included
Commercial Umbrella	
Per Occurrence	$1,000,000
Annual Aggregate Limit	$1,000,000
Self-Insured Retention	$10,000
Personal and Advertising	$1,000,000

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McALESTER	101 S. 2ND. STE. B	McALESTER, OK 74501-5345	918-426-1234
TUCSON	4801 E. BROADWAY BLVD., STE. 501	TUCSON, AZ 85711-3648	520-624-8229
TULSA	4200 E. SKELLY DR., STE. 560	TULSA, OK 74135-3209	918-494-8700
WAGONER	611-D W. CHEROKEE ST.	WAGONER, OK 74467-4618	918-485-5531
WICHITA	300 W. DOUGLAS AVE., STE. 900	WICHITA, KS 67202-2914	316-264-2335