

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**COMPARATIVE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**  
**With Independent Auditor's Report**

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KIRKPATRICK, SPRECKER & COMPANY, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Butler County Rural Water District No. 6

We have audited the accompanying financial statements of Butler County Rural Water District No. 6, which comprise the balance sheets as of December 31, 2019 and 2018, 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. 6, as of December 31, 2019 and 2018, 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. 6

**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.

*Kirkpatrick, Sprecker & Company, LLP*

KIRKPATRICK, SPRECKER & COMPANY, LLP  
Wichita, KS

March 10, 2020

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**BALANCE SHEETS**  
**December 31, 2019 and 2018**

**ASSETS**

	<b><u>2019</u></b>	<b><u>2018</u></b>
Cash in bank	\$ 1,047,938	\$ 383,116
Certificates of deposit	494,388	1,116,797
Total cash and cash equivalents	1,542,326	1,499,913
Accounts receivable - customers	64,133	95,688
Notes receivable	96,907	125,404
Accrued interest receivable	1,098	491
Inventory - materials	10,088	13,059
Property and equipment - at cost		
Phase I	2,434,974	2,434,974
Phase II	1,665,491	1,665,491
Extensions and upgrades	3,170,654	3,171,891
Construction in progress	1,366,282	717,009
Total cost of property and equipment	8,637,401	7,989,365
Less accumulated depreciation	5,116,628	4,908,971
Property and equipment - net of depreciation	3,520,773	3,080,394
Loan reserve deposit held by KDHE	148,247	56,075
Total assets	5,383,572	4,871,024

**LIABILITIES AND FUND EQUITY**

Liabilities		
Accounts payable	\$ 31,814	\$ 318,634
Unearned revenue	18,240	20,100
Loan payable	1,415,143	555,557
Total liabilities	1,465,197	894,291
Fund equity		
Reserved for bond and loan payable requirements		
Loan reserve	148,247	56,075
Unreserved	3,770,128	3,920,658
Total fund equity	3,918,375	3,976,733
Total liabilities and fund equity	5,383,572	4,871,024

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, 2019 and 2018**

	<u><b>2019</b></u>	<u><b>2018</b></u>
Operating revenue		
Sales - retail	\$ 561,855	\$ 587,927
Sales - commercial	<u>152,583</u>	<u>166,605</u>
	714,438	754,532
New meters	11,200	5,935
Connection charges	11,701	11,205
Customer services	<u>4,215</u>	<u>2,065</u>
Total operating revenue	<u>741,554</u>	<u>773,737</u>
Operating expenses		
Water purchases	324,857	342,752
Depreciation	209,926	178,561
System repairs	53,446	186,654
Accounting and office services	42,240	42,240
Maintenance contract	38,430	38,430
Connections	12,686	11,891
Utilities	29,771	33,664
Miscellaneous	23,548	27,485
Office supplies and postage	7,555	6,128
Engineering	18,573	34,009
Insurance	18,695	19,532
Independent audit	4,900	4,875
Water protection fee	2,269	3,264
Supplies	14,352	44,260
Water testing	2,901	2,258
Legal	<u>-</u>	<u>1,292</u>
Total operating expenses	<u>804,149</u>	<u>977,295</u>
Loss from operations before interest income and expense	<u>(62,595)</u>	<u>(203,558)</u>
Other income (expense)		
Interest earned	17,173	12,134
Interest expense	<u>(12,936)</u>	<u>(58)</u>
Total other income	<u>4,237</u>	<u>12,076</u>
Net loss	(58,358)	(191,482)
Fund equity at beginning of year	<u>3,976,733</u>	<u>4,168,215</u>
Fund equity at end of year	<u>3,918,375</u>	<u>3,976,733</u>

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, 2019 and 2018**

	<u><b>2019</b></u>	<u><b>2018</b></u>
Cash flows from operating activities		
Net loss	\$ (58,358)	\$ (191,482)
Adjustment to reconcile net income to net cash provided by (applied to) operating activities:		
Depreciation	209,926	178,561
Amortization of debt issuance costs	599	58
(Increase) decrease in accounts receivable	31,555	(30,366)
(Increase) decrease in inventory	2,971	(12,669)
(Increase) decrease in accrued interest receivable	(607)	76
Increase (decrease) in accounts payable	(286,819)	69,451
Increase (decrease) in unearned revenue	<u>(1,860)</u>	<u>2,000</u>
Net cash provided by (applied to) operating activities	<u>(102,593)</u>	<u>15,629</u>
Cash flows from investing activities		
Principal received on notes receivable	28,497	27,096
Increase in accounts payable for property assets	-	208,670
Purchase of property assets	<u>(650,306)</u>	<u>(813,265)</u>
Net cash applied to investing activities	<u>(621,809)</u>	<u>(577,499)</u>
Cash flows from financing activities		
Proceeds from loan	820,589	499,424
Repayment of bond	<u>(53,774)</u>	<u>-</u>
Net cash provided by financing activities	<u>766,815</u>	<u>499,424</u>
Net increase (decrease) in cash and cash equivalents	42,413	(62,446)
Cash and cash equivalents - beginning of year	<u>1,499,913</u>	<u>1,562,359</u>
Cash and cash equivalents - end of year	<u><u>1,542,326</u></u>	<u><u>1,499,913</u></u>

Supplemental disclosures of cash flow information

Cash paid during the year for interest	\$ 12,337	\$ -
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Schedule of Noncash Investing and Financing Activities

During the year ended December 31, 2019, the District made deposits to a loan reserve with a deposit of \$92,172 from proceeds of the note payable to KDHE.

During the year ended December 31, 2019, the District incurred loan issuance costs of \$8,966 from proceeds of the note payable by KDHE.

During the year ended December 31, 2018, the District made deposits to a loan reserve with a deposit of \$56,075 from proceeds of the note payable to KDHE.

During the year ended December 31, 2018, the District incurred loan issuance costs of \$5,250 from proceeds of the note payable by KDHE.

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

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

1. Summary of significant accounting policies

Description of operations

Butler County Rural Water District No. 6 (the District) provides water to farms, rural residents and three local cities of Butler County within the District. The District extends credit to customers, all of whom are local. There were 990 and 987 benefit unit holders in the District at December 31, 2019 and 2018, respectively.

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 entities 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.

Cash and cash equivalents

For purposes of reporting cash flows, cash includes cash accounts in banks, certificates of deposit, and a money market account at a major bank. Cash equivalents include all highly liquid debt instruments purchased with 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 will be charged to operations when that determination is made.

Notes receivable

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

Inventory - materials

Inventory consists of materials and is stated at cost.

Property, equipment and depreciation

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

(continued)



**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

1. Summary of significant accounting policies (continued)

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 the line extensions.

Amortization

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

Tax returns

The District is a Kansas municipality and is not required to file federal or state income tax returns.

2. Notes receivable

The following is an analysis of notes receivable at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Note receivable from the City of Douglass 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%.	\$ 72,424	\$ 97,168
Note receivable 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%.	<u>24,483</u>	<u>28,236</u>
Total notes receivable	<u><u>96,907</u></u>	<u><u>125,404</u></u>

Scheduled interest and principal requirements as of December 31, 2019, are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2020	\$ 4,305	\$ 29,860	\$ 34,165
2021	2,763	31,402	34,165
2022	1,172	23,609	24,781
2023	498	4,582	5,080
2024	263	4,816	5,079
Thereafter	<u>40</u>	<u>2,638</u>	<u>2,678</u>
Totals	<u><u>9,041</u></u>	<u><u>96,907</u></u>	<u><u>105,948</u></u>

The notes receivable are current through December 31, 2019.

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

3. Loan payable

The District has a loan payable with KDHE. The District must make semi-annual payments of principal and interest, of \$45,429, beginning in February 2020. As of December 31, 2019, the loan payable balance was \$1,428,702.

The following is an analysis of scheduled maturities of notes payable for years ending December 31:

2020	\$ 59,449
2021	60,291
2022	61,661
2023	63,063
2024	64,496
Thereafter	<u>1,119,742</u>
Loan payable	1,428,702
Less unamortized debt issuance costs	<u>(13,559)</u>
Long-term debt, less unamortized debt issuance costs	<u><u>1,415,143</u></u>

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, 2019. 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, 2019 and 2018, the balance of the reserve account was \$148,247 and \$56,075, respectively.

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:

<u>December 31</u>	<u>Amount</u>
2020	\$ 7,500
2021	7,200
2022	7,200
2023	7,200
2024	<u>7,200</u>
	<u><u>36,300</u></u>

Rent expense was \$7,775 and \$5,400 for the years ended December 30, 2019 and 2018, respectively.

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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, 2019 and 2018.

6. Compliance with Kansas statutes

There were no statutory violations during the years ended December 31, 2019 and 2018.

7. Concentrations and risks

Three cities within the District (Douglass, Leon, and Latham) purchase water from the District. Water sales to the three cities totaled \$152,583 in 2019 and \$166,605 in 2018. The percent of water sales per city to total operating revenue in 2019, were: Douglass 14.46%; Leon 4.62%; and Latham 1.49%. The percent of water sales per city to total operating revenue in 2018, were: Douglass 15.32%; Leon 4.71%; and Latham 1.50%.

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

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

8. Related parties

The District paid a company, owned by a board member, for consulting services. The total amount paid was \$5,266.

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

9. Subsequent events

The District has evaluated subsequent events through March 10, 2020, 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. 6**  
**SCHEDULE OF INSURANCE COVERAGE\***  
**December 31, 2019**

<b><u>Coverage</u></b>	<b><u>Amount</u></b>
Insurer: Insurance Center, Inc.	
Annual Premium: \$22,399	
Policy Expires: 5/20/20	
<b><u>General Liability</u></b>	
General aggregate limit, other than products	\$ 2,000,000
General aggregate limit, products and completed operations	2,000,000
Personal and advertising injury limit	1,000,000
Each occurrence limit	1,000,000
Automobile - Liability	1,000,000
Damage to rented premises	300,000
Medical expense limit (any one person)	5,000
<b><u>Property</u></b>	
Water Towers (100% Co-insurance, \$2,500 Deductible, 10% on Earthquake)	4,029,000
Pump Stations (100% Co-insurance, \$2,500 Deductible, 10% on Earthquake)	2,652,000
Buildings (100% Co-insurance, \$2,500 Deductible, 10% on Earthquake)	204,000
Remote Units (100% Co-insurance, \$2,500 Deductible, 10% on Earthquake)	153,000
Business personal property - office (\$2,500 Deductible)	10,200
Blanket (90% Co-insurance, \$2,500 Deductible, 10% on Earthquake)	7,048,200
<b><u>Inland Marine</u></b>	
Generators(2), Trailers(3), Portable Monitor, Aqua Scope, Test Pump, Polytank, Metal Detector (80% Co-insurance, \$250 Deductible)	50,411
<b><u>Public Officials Liability</u></b>	
Aggregate For Each Policy Term	2,000,000
Each Loss	1,000,000
Insured's Deductible Each Claim (Including Defense Expense)	1,500
<b><u>Cyber Liability</u></b>	
Cyber Coverage - Computer Attack Limit	100,000
Data Compromise Coverage - Response Expenses Limit	50,000
Deductible	1,000
<b><u>Electronic Data Processing</u></b>	
Billing Hardware & Software (80% Co-insurance, \$500 Deductible)	21,424
<b><u>Commercial Umbrella</u></b>	
Per Occurrence	1,000,000
Annual Aggregate Limit	1,000,000
Personal and Advertising	1,000,000
Self-Insured Retention	10,000

This schedule is intended only as a descriptive summary; no expression of opinion as to the adequacy of the coverage is intended.

\* Unaudited

