

BUTLER COUNTY RURAL WATER DISTRICT NO. 6
COMPARATIVE FINANCIAL STATEMENTS
December 31, 2018 and 2017
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, 2018 and 2017, 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, 2018 and 2017, 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.

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, KS

March 12, 2019

BUTLER COUNTY RURAL WATER DISTRICT NO. 6
BALANCE SHEETS
December 31, 2018 and 2017

ASSETS

| | <u>2018</u> | <u>2017</u> |
|--|-------------------------|-------------------------|
| Cash in bank | \$ 383,116 | \$ 449,812 |
| Certificates of deposit | <u>1,116,797</u> | <u>1,112,547</u> |
| Total cash and cash equivalents | 1,499,913 | 1,562,359 |
| Accounts receivable - customers | 95,688 | 65,323 |
| Notes receivable | 125,404 | 152,502 |
| Accrued interest receivable | 491 | 567 |
| Inventory - materials | <u>13,059</u> | <u>390</u> |
| Property and equipment - at cost | | |
| Phase I | 2,434,974 | 2,434,974 |
| Phase II | 1,665,491 | 1,665,491 |
| Extensions and upgrades | 3,171,891 | 3,075,633 |
| Construction in progress | <u>717,009</u> | <u>-</u> |
| Total cost of property and equipment | 7,989,365 | 7,176,098 |
| Less accumulated depreciation | <u>4,908,971</u> | <u>4,730,410</u> |
| Property and equipment - net of depreciation | <u>3,080,394</u> | <u>2,445,688</u> |
| Loan reserve account | <u>56,075</u> | <u>-</u> |
| Total assets | <u><u>4,871,024</u></u> | <u><u>4,226,829</u></u> |

LIABILITIES AND FUND EQUITY

| | | |
|---|-------------------------|-------------------------|
| Liabilities | | |
| Accounts payable | \$ 318,634 | \$ 40,514 |
| Unearned revenue | 20,100 | 18,100 |
| Loan payable | <u>555,557</u> | <u>-</u> |
| Total liabilities | <u>894,291</u> | <u>58,614</u> |
| Fund equity | | |
| Reserved for bond and loan payable requirements | | |
| Loan reserve | 56,075 | - |
| Bond reserve | - | 58,500 |
| Unreserved | <u>3,920,658</u> | <u>4,109,715</u> |
| Total fund equity | <u>3,976,733</u> | <u>4,168,215</u> |
| Total liabilities and fund equity | <u><u>4,871,024</u></u> | <u><u>4,226,829</u></u> |

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, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|--------------------|--------------------|
| Operating revenue | | |
| Sales - retail | \$ 587,927 | \$ 591,769 |
| Sales - commercial | <u>166,605</u> | <u>132,185</u> |
| | 754,532 | 723,954 |
| New meters | 5,935 | 19,060 |
| Connection charges | 11,205 | 11,181 |
| Customer services | <u>2,065</u> | <u>6,694</u> |
| Total operating revenue | <u>773,737</u> | <u>760,889</u> |
| Operating expenses | | |
| Water purchases | 342,752 | 311,879 |
| Depreciation | 178,561 | 175,127 |
| System repairs | 186,654 | 50,417 |
| Accounting and office services | 42,240 | 42,240 |
| Maintenance contract | 38,430 | 38,430 |
| Connections | 11,891 | 23,476 |
| Utilities | 33,664 | 28,615 |
| Miscellaneous | 27,485 | 17,693 |
| Office supplies and postage | 6,128 | 8,318 |
| Engineering | 34,009 | 18,583 |
| Insurance | 19,532 | 10,428 |
| Independent audit | 4,875 | 4,875 |
| Water protection fee | 3,264 | 3,969 |
| Supplies | 44,260 | 16,521 |
| Water testing | 2,258 | 2,024 |
| Legal | <u>1,292</u> | <u>338</u> |
| Total operating expenses | <u>977,295</u> | <u>752,933</u> |
| Income (loss) from operations before interest income and expense | <u>(203,558)</u> | <u>7,956</u> |
| Other income (expense) | | |
| Interest earned | 12,134 | 12,964 |
| Interest expense | <u>(58)</u> | <u>(4,234)</u> |
| Total other income | <u>12,076</u> | <u>8,730</u> |
| Net income (loss) | (191,482) | 16,686 |
| Fund equity at beginning of year | <u>4,168,215</u> | <u>4,151,529</u> |
| Fund equity at end of year | <u>3,976,733</u> | <u>4,168,215</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, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|--------------------|--------------------|
| Cash flows from operating activities | | |
| Net income (loss) | \$ (191,482) | \$ 16,686 |
| Adjustment to reconcile net income to net cash provided by (applied to) operating activities: | | |
| Depreciation | 178,561 | 175,127 |
| Amortization of debt issuance costs | 58 | - |
| (Increase) decrease in accounts receivable | (30,366) | 3,523 |
| Increase in inventory | (12,669) | - |
| Decrease in accrued interest receivable | 76 | - |
| Increase in accounts payable | 69,451 | 414 |
| Increase (decrease) in unearned revenue | 2,000 | (7,600) |
| Net cash provided by operating activities | <u>15,629</u> | <u>188,150</u> |
| Cash flows from investing activities | | |
| Principal received on notes receivable | 27,096 | 25,765 |
| Increase in accounts payable for property assets | 208,670 | - |
| Purchase of property assets | (813,265) | (213,265) |
| Net cash applied to investing activities | <u>(577,499)</u> | <u>(187,500)</u> |
| Cash flows from financing activities | | |
| Proceeds from loan | 499,424 | - |
| Repayment of bond | - | (116,966) |
| Net cash provided by (applied to) financing activities | <u>499,424</u> | <u>(116,966)</u> |
| Net decrease in cash and cash equivalents | (62,446) | (116,316) |
| Cash and cash equivalents - beginning of year | <u>1,562,359</u> | <u>1,678,675</u> |
| Cash and cash equivalents - end of year | <u>1,499,913</u> | <u>1,562,359</u> |
| <u>Supplemental disclosures of cash flow information</u> | | |
| Cash paid during the year for interest | \$ - | \$ 1,200 |

Schedule of Noncash Investing and Financing Activities

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, 2018 and 2017

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 987 and 988 benefit unit holders in the District at December 31, 2018 and 2017, 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.

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.

(continued)

BUTLER COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of significant accounting policies (continued)

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, 2018 and 2017:

| | <u>2018</u> | <u>2017</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%. | \$ 97,168 | \$ 120,696 |
| 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>28,236</u> | <u>31,806</u> |
| Total notes receivable | <u><u>125,404</u></u> | <u><u>152,502</u></u> |

Scheduled interest and principal requirements as of December 31, 2018, are as follows:

| <u>Year</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|----------------------|-----------------------|-----------------------|
| 2019 | \$ 5,771 | \$ 28,394 | \$ 34,165 |
| 2020 | 4,305 | 29,860 | 34,165 |
| 2021 | 2,763 | 31,402 | 34,165 |
| 2022 | 1,172 | 24,374 | 25,546 |
| 2023 | 498 | 4,582 | 5,080 |
| Thereafter | <u>304</u> | <u>6,792</u> | <u>7,096</u> |
| Totals | <u><u>14,813</u></u> | <u><u>125,404</u></u> | <u><u>140,217</u></u> |

The notes receivable are current through December 31, 2018.

3. Loan payable

In October 2015, the District entered into a loan agreement with KDHE to help fund various projects. The loan allows the District to borrow up to \$2,100,000, with an interest rate of 2.26%. The District is required to start making repayments after the loan closes. As of December 31, 2018, the loan payable balance was \$560,749.

Loan payable on the balance sheet net of debt issuance costs:

| | |
|--|-----------------------|
| Loan payable | \$ 560,749 |
| Less unamortized debt issuance costs | <u>(5,192)</u> |
| Long-term debt, less unamortized debt issuance costs | <u><u>555,557</u></u> |

BUTLER COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018 and 2017

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> |
|--------------------|---------------|
| 2019 | \$ 7,500 |
| 2020 | 7,500 |
| 2021 | 7,200 |
| 2022 | 7,200 |
| 2023 | 7,200 |
| Thereafter | 7,200 |
| | <u>43,800</u> |

Rent expense was \$5,400 for the years ended December 30, 2018 and 2017.

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, 2018 and 2017.

6. Compliance with Kansas statutes

There were no statutory violations during the years ended December 31, 2018 and 2017.

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 \$166,605 in 2018 and \$132,185 in 2017. The percent of water sales per city to total operating revenue in 2018, were: Douglass 15.32%; Leon 4.71%; and Latham 1.50%. The percent of water sales per city to total operating revenue in 2017, were: Douglass 14.41%; Leon 1.19%; and Latham 1.77%.

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

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 12, 2019, 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, 2018

| <u>Coverage</u> | <u>Amount</u> |
|---|----------------------|
| Insurer: Insurance Center, Inc. | |
| Annual Premium: \$22,319 | |
| Policy Expires: 5/20/19 | |
| <u>General Liability</u> | |
| 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 |
| Automobile - Liability | 1,000,000 |
| Damage to rented premises | 300,000 |
| Fire damage limit (any one fire) | 100,000 |
| Medical expense limit (any one person) | 5,000 |
| <u>Property</u> | |
| Water Towers (100% Co-insurance, \$2,500 Deductible, 10% on Earthquake) | \$3,950,000 |
| Pump Stations (100% Co-insurance, \$2,500 Deductible, 10% on Earthquake) | \$2,600,000 |
| Buildings (100% Co-insurance, \$2,500 Deductible, 10% on Earthquake) | \$200,000 |
| Remote Units (100% Co-insurance, \$2,500 Deductible, 10% on Earthquake) | \$150,000 |
| Blanket (90% Co-insurance, \$2,500 Deductible, 10% on Earthquake) | |
| <u>Inland Marine</u> | |
| Generators(2), Trailers(3), Portable Monitor, Aqua Scope, Test Pump, Polytank, Metal Detector (80% Co-insurance, \$250 Deductible) | \$248,411 |
| <u>Public Officials Liability</u> | |
| Aggregate For Each Policy Term | \$1,000,000 |
| Each Loss | \$1,000,000 |
| Insured's Deductible Each Claim (Including Defense Expense) | \$1,500 |
| <u>Cyber Liability</u> | |
| Cyber Coverage - Computer Attack Limit | \$100,000 |
| Data Compromise Coverage - Response Expenses Limit | \$50,000 |
| Deductible | \$1,000 |
| <u>Electronic Data Processing</u> | |
| Billing Hardware & Software (80% Co-insurance, \$500 Deductible) | \$21,424 |
| <u>Commercial Umbrella</u> | |
| Per Occurrence | \$1,000,000 |
| Annual Aggregate Limit | \$1,000,000 |
| Personal and Advertising | \$1,000,000 |
| Self-Insured Retention | \$10,000 |

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.

* Unaudited

