

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**COMPARATIVE FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**  
**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, 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. 6, 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. 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

February 10, 2018

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**COMPARATIVE BALANCE SHEETS**  
**December 31, 2017 and 2016**

**ASSETS**

	<b><u>2017</u></b>	<b><u>2016</u></b>
Cash in bank	\$ 449,812	\$ 569,483
Certificates of deposit	<u>1,112,547</u>	<u>1,109,192</u>
Total cash and cash equivalents	1,562,359	1,678,675
Accounts receivable - customers	65,323	68,844
Notes receivable	152,502	178,269
Accrued interest receivable	567	567
Inventory - materials	<u>390</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	<u>3,075,633</u>	<u>2,862,367</u>
Total cost of property and equipment	7,176,098	6,962,832
Less accumulated depreciation	<u>4,730,410</u>	<u>4,555,283</u>
Property and equipment - net of depreciation	<u>2,445,688</u>	<u>2,407,549</u>
Total assets	<u><u>4,226,829</u></u>	<u><u>4,334,294</u></u>

**LIABILITIES AND FUND EQUITY**

Liabilities		
Accounts payable	\$ 40,514	\$ 40,099
Bonds payable	-	116,966
Unearned revenue	<u>18,100</u>	<u>25,700</u>
Total liabilities	<u>58,614</u>	<u>182,765</u>
Fund equity		
Reserved for bond requirements		
Bond reserve	58,500	58,500
Unreserved	<u>4,109,715</u>	<u>4,093,029</u>
Total fund equity	<u>4,168,215</u>	<u>4,151,529</u>
Total liabilities and fund equity	<u><u>4,226,829</u></u>	<u><u>4,334,294</u></u>

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

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**COMPARATIVE STATEMENTS OF OPERATIONS AND CHANGES IN FUND EQUITY**  
**For the Years Ended December 31, 2017 and 2016**

	<u><b>2017</b></u>	<u><b>2016</b></u>
Operating revenue		
Sales - retail	\$ 591,769	\$ 585,410
Sales - commercial	<u>132,185</u>	<u>154,035</u>
	723,954	739,445
Donations for water meters	19,060	15,500
Connection charges	11,181	24,713
Customer services	<u>6,694</u>	<u>4,593</u>
Total operating revenue	<u>760,889</u>	<u>784,251</u>
Operating expenses		
Water purchases	311,879	318,591
Depreciation	175,127	176,690
System repairs	50,417	53,571
Accounting and office services	42,240	42,240
Maintenance contract	38,430	38,430
Connections	23,476	27,841
Utilities	28,615	29,968
Miscellaneous	17,693	19,802
Office supplies and postage	8,318	4,430
Engineering	18,583	14,663
Insurance	10,428	10,663
Independent audit	4,875	4,725
Water protection fee	3,969	3,109
Supplies	16,521	37,117
Water testing	2,024	1,273
Legal	<u>338</u>	<u>300</u>
Total operating expenses	<u>752,933</u>	<u>783,413</u>
Income from operations before interest income and expense	<u>7,956</u>	<u>838</u>
Other income (expense)		
Interest earned	12,964	14,252
Interest expense	<u>(4,234)</u>	<u>(5,194)</u>
Total other income	<u>8,730</u>	<u>9,058</u>
Net income	16,686	9,896
Fund equity at beginning of year	<u>4,151,529</u>	<u>4,141,633</u>
Fund equity at end of year	<u>4,168,215</u>	<u>4,151,529</u>

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

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2017 and 2016**

	<u><b>2017</b></u>	<u><b>2016</b></u>
Cash flows from operating activities		
Net income	\$ 16,686	\$ 9,896
Adjustment to reconcile net income to net cash provided by (applied to) operating activities:		
Depreciation	175,127	176,690
(Increase) decrease in accounts receivable	3,523	(4,813)
Increase in inventory	-	776
Increase (decrease) in accounts payable	414	(19,407)
Increase (decrease) in unearned revenue	(7,600)	10,600
Net cash provided by operating activities	<u>188,150</u>	<u>173,742</u>
Cash flows from investing activities		
Principal received on notes receivable	25,765	24,503
Purchase of property assets	<u>(213,265)</u>	<u>(27,696)</u>
Net cash applied to investing activities	<u>(187,500)</u>	<u>(3,193)</u>
Cash flows from financing activities		
Repayment of bond	<u>(116,966)</u>	<u>(116,966)</u>
Net cash applied to financing activities	<u>(116,966)</u>	<u>(116,966)</u>
Net increase (decrease) in cash and cash equivalents	(116,316)	53,583
Cash and cash equivalents - beginning of year	<u>1,678,675</u>	<u>1,625,092</u>
Cash and cash equivalents - end of year	<u><u>1,562,359</u></u>	<u><u>1,678,675</u></u>
<u>Supplemental disclosures of cash flow information</u>		
Cash paid during the year for interest	\$ 1,200	\$ 2,160

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, 2017 and 2016**

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 988 and 984 benefit unit holders in the District at December 31, 2017 and 2016, 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, 2017 and 2016**

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.

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, 2017 and 2016:

	<u>2017</u>	<u>2016</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%.	\$ 120,696	\$ 143,067
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>31,806</u>	<u>35,202</u>
Total notes receivable	<u><u>152,502</u></u>	<u><u>178,269</u></u>

Scheduled interest and principal requirements as of December 31, 2017, are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	\$ 7,166	\$ 26,999	\$ 34,165
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
Thereafter	<u>801</u>	<u>11,473</u>	<u>12,274</u>
Totals	<u><u>21,978</u></u>	<u><u>152,502</u></u>	<u><u>174,480</u></u>

The notes receivable are current through December 31, 2017.

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%. As of December 31, 2017, the District had not borrowed on the loan.

4. Bonds payable

The District issued water utility system revenue bonds payable in the amount of \$585,000 in December 2012. Interest was due semi-annually at rates that varied between 0.25% and 1.00%. Principal payments were due on December 1 of each year through December 1, 2017. The bond was paid in full as of December 31, 2017, after the District made a principal payment of \$120,000 and interest payments totaling \$1,200.

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

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. Compliance with Kansas statutes

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

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 \$132,185 in 2017 and \$154,035 in 2016. The percent of water sales per city to total operating revenue in 2017, were: Douglass 14.41%; Leon 1.19%; and Latham 1.77%. The percent of water sales per city to total operating revenue in 2016, were: Douglass 16.07%; Leon 1.75%; and Latham 1.82%.

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. Prior period adjustment

The financial statements for the year ended December 31, 2016, have been restated for the adoption of *FASB ASC 835-30 Interest- Imputation of Interest*. Bonds payable as of December 31, 2016, was reduced by the net unamortized bond issuance costs of \$3,034. Bond issuance costs were previously reported on the balance sheet as an asset of \$3,034. Amortization of debt issuance costs in the amount of \$3,034 is reported as interest expense in the income statement for years ending December 31, 2017 and 2016. The adoption has no effect on fund equity.

10 Subsequent events

The District has evaluated subsequent events through February 10, 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. 6**  
**SCHEDULE OF INSURANCE COVERAGE\***  
**December 31, 2017**

<b><u>Coverage</u></b>	<b><u>Amount</u></b>
Insurer: Insurance Center, Inc.	
Annual Premium: \$14,112	
Policy Expires: 5/20/18	
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
Automobile - Liability	1,000,000
Fire damage limit (any one fire)	100,000
Damage to rented premises	100,000
Medical expense limit (any one person)	5,000
Fire and allied perils (replacement cost coverage):	
Water towers (Coinsurance is 90% (10% on earthquakes) with \$2,500 deductible)	2,509,938
Pump stations (Coinsurance is 90% (10% on earthquakes) with \$2,500 deductible)	784,415
Buildings (Coinsurance is 90% (10% on earthquakes) with \$2,500 deductible)	154,936
Remote units (Coinsurance is 90% (10% on earthquakes) with \$2,500 deductible)	27,757
Portable generators (2) and trailers (3) (Coinsurance is 80% with \$250 Deductible)	40,537
Billing hardware and software - data and media (Coinsurance is 80% with \$500 Deductible)	13,924
Portable monitor (Coinsurance is 80% with \$250 Deductible)	4,160
Test pump and polytank (Coinsurance is 80% with \$250 Deductible)	3,289
Aqua scope (Coinsurance is 80% with \$250 Deductible)	1,675
Wrongful acts coverage:	
Each loss limit	1,000,000
Aggregate limit for policy term	1,000,000
Umbrella - Liability	1,000,000
Deductible - \$1,500	

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.

