

**BUTLER COUNTY FIRE DISTRICT #3**  
**(A Component Unit of Butler County, Kansas)**

**Financial Statements**  
**December 31, 2011**

**with**  
**Independent Auditors' Report**

BUTLER COUNTY FIRE DISTRICT #3  
Financial Statements  
December 31, 2011  
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**INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Butler County Fire District #3

We have audited the accompanying financial statements of the individual funds of the Butler County Fire District #3 (a component unit of Butler County, Kansas) as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the District's policy is to prepare its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each of the various funds of the Butler County Fire District #3, as of December 31, 2011 and the revenues received and expenditures paid of such funds for the year then ended on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the Board of Trustees and management of the Butler County Fire District #3, for filing with the Kansas Department of Administration, Division of Accounts and Reports and for filing with Butler County and should not be used for any other purposes.

*Peterson Peterson & Goss, LC*

March 6, 2012

BUTLER COUNTY FIRE DISTRICT #3  
 Summary of Cash Receipts, Expenditures and Unencumbered Cash  
 Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash	Cash Receipts	Expenditures	Ending Unencumbered Cash	Add Outstanding Encumbrances	Ending Cash Balance
Governmental Fund Types:						
General	\$ 8,660	\$ 313,789	\$ 306,964	\$ 15,485	\$ 681	\$ 16,166
Special revenue:						
Special Equipment Reserve	191,799	51,135	187,220	55,714	-	55,714
Debt Service	-	106,493	106,493	-	-	-
Total	<u>\$ 200,459</u>	<u>\$ 471,417</u>	<u>\$ 600,677</u>	<u>\$ 71,199</u>	<u>\$ 681</u>	<u>\$ 71,880</u>

## Composition of Cash:

Checking account - Rose Hill Bank	\$ 31,682
Certificate of deposit - Rose Hill Bank	40,198
Total	<u>\$ 71,880</u>

See notes to financial statements.

Statement 2

BUTLER COUNTY FIRE DISTRICT #3  
Summary of Expenditures - Actual and Budget  
Year Ended December 31, 2011

<u>Fund</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Favorable (Unfavorable)</u>
General	\$ 297,150	\$ 23,116	\$ 320,266	\$ 306,964	\$ 13,302
Debt Service	106,493	-	106,493	106,493	-

See notes to financial statements.

BUTLER COUNTY FIRE DISTRICT #3  
Statement of Cash Receipts and Expenditures - Actual and Budget  
General Fund  
Year Ended December 31, 2011

	Expenditures Budget	Actual	Variance Over (Under)
<b>Cash Receipts:</b>			
County Treasurer		\$ 84,178	
EMS rent		2,757	
Grants and donations		4,000	
Hail damage insurance proceeds		25,667	
Sale of equipment		6,150	
Other		3,420	
Total cash receipts - District		126,172	
In-kind County payments		187,617	
Total receipts and in-kind payments		313,789	
<b>Expenditures:</b>			
Contractual services, etc.	\$ 61,310	60,641	\$ 669
Commodities/supplies	12,250	22,816	(10,566)
Vehicle expenses	17,000	14,435	2,565
Equipment	-	8,955	(8,955)
Transfer to Special Equipment Reserve Fund	-	12,500	(12,500)
County payments of personnel expenses	206,590	187,617	18,973
Legal General Fund Budget	297,150	306,964	(9,814)
Adjustment for qualifying budget credits	23,116	-	23,116
Total expenditures	\$ 320,266	306,964	\$ 13,302
Receipts Over (Under) Expenditures		6,825	
Unencumbered Cash, Beginning		8,660	
Unencumbered Cash, Ending		\$ 15,485	

See notes to financial statements.

BUTLER COUNTY FIRE DISTRICT #3  
Statement of Cash Receipts and Expenditures - Actual  
Special Equipment Reserve Fund  
Year Ended December 31, 2011

Cash Receipts:	
Interest	\$ 2,435
Loan proceeds	36,200
Transfer from General Fund	12,500
Total receipts	<u>51,135</u>
Expenditures:	
Fire truck	186,940
Equipment	280
Total expenditures	<u>187,220</u>
Receipts Over (Under) Expenditures	(136,085)
Unencumbered Cash, Beginning	<u>191,799</u>
Unencumbered Cash, Ending	<u><u>\$ 55,714</u></u>

See notes to financial statements.

BUTLER COUNTY FIRE DISTRICT #3  
Statement of Cash Receipts and Expenditures - Actual  
Debt Service Fund  
Year Ended December 31, 2011

	<u>Expenditures Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Cash Receipts:			
In-kind County payments		\$ 106,493	
Total cash receipts		<u>106,493</u>	
Expenditures:			
County payment of principal	\$ 65,000	65,000	\$ -
County payment of interest	41,493	41,493	-
Total expenditures	<u>\$ 106,493</u>	<u>106,493</u>	<u>\$ -</u>
Receipts Over (Under) Expenditures		-	
Unencumbered Cash, Beginning		<u>-</u>	
Unencumbered Cash, Ending		<u>\$ -</u>	

Note: The Debt Service Fund is maintained by the Butler County Treasurer.

See notes to financial statements.

BUTLER COUNTY FIRE DISTRICT #3

Notes to Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Butler County Fire District #3 (The District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who is responsible for their integrity and objectivity. These accounting policies conform to a comprehensive basis of accounting other than generally accepted accounting principles.

Reporting Entity

Butler County Fire District #3 is a component unit of Butler County, Kansas. The District is governed by a five-member board of trustees appointed by the Butler County Commissioners.

Butler County Fire District #3 was formed pursuant to K.S.A. 19-3606, et. seq., and is staffed by a combination of full time and volunteer firefighters. Pursuant to K.S.A. 19-3612a, the Butler County Commissioners issued a resolution appointing a Fire District Board of Trustees to assume many of the duties previously handled by the County Commissioners. This includes receiving, expending and having custody of all funds of the District, except for payroll expenditures and bond and interest payments which continue to be paid from the District budget by Butler County, and maintaining complete records of revenues and expenditures.

Basis of Presentation

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the District for the year 2011:

Governmental Fund Types

General Fund - to account for all unrestricted resources except those required to be accounted for in another fund. All resources of the District are accounted for in the General Fund, exclusive of the special revenue funds.

BUTLER COUNTY FIRE DISTRICT #3

Notes to Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Governmental Fund Types (continued)

Special Revenue Funds - to account for the proceeds of specific revenue sources which must be devoted to some specific use as required by law or specific regulation. The special revenue fund maintained by the District is the Special Equipment Reserve Fund.

Debt Service Fund – to account for the payment of principal and interest on general obligation bonds. This fund is maintained by the Butler County Treasurer.

Basis of Accounting

These financial statements are presented on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund increases. Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund and a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments related to unperformed contracts for goods and services, and are usually evidenced by a purchase order or written contract.

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. General fixed assets that account for the land, buildings and equipment owned by the District are not presented in the financial statements. General long-term debt such as general obligation bonds and compensated absences are not presented in the financial statements.

Retirement Plan

All full-time employees are members of the State of Kansas Public Employees' Retirement System which is a cost sharing multi-employer statewide defined benefit pension plan. The plan is more fully described in Note 2.

BUTLER COUNTY FIRE DISTRICT #3  
Notes to Financial Statements  
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Budgetary Principles

The District is required by State statute to adopt annual budgets, via Butler County, for the general fund and debt service funds on or before August 25 for the ensuing year. The Special Equipment Reserve Fund is specifically exempted from budgetary requirements. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
2. Publication in the local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing
4. Adoption of the final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year- end.

BUTLER COUNTY FIRE DISTRICT #3  
Notes to Financial Statements  
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Risk Management

The District is exposed to various risks for loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Subsequent Events

Subsequent events have been evaluated through March 6, 2012, which is the date the financial statements were available to be issued. Events requiring disclosure, if any, were identified and disclosed.

2. Pension Plan

Plan Description

The District employees are legally employees of Butler County which participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS, 611 S. Kansas Avenue, Suite 100, Topeka, and Kansas 66603-3803.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% (Tier1) and 6% (Tier 2) of covered salary. Member-employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The County's contributions to KPERS for District covered employees for the year ending December 31, 2011 amounted to the statutory required contributions for the year.

BUTLER COUNTY FIRE DISTRICT #3  
Notes to Financial Statements  
December 31, 2011

3. Interfund Transfers

A summary of interfund transfers per K.S.A. 19-3612c is as follows:

Fund	Transfers In (out)
General	\$(12,500)
Special Equipment Reserve	12,500

4. Compensated Absences

District employees are legally employees of Butler County and are subject to the County's personnel policies. It is the County's policy to permit employees to accumulate a maximum of seven calendar day's vacation. Upon termination or resignation from service, employees are entitled to payment for all accrued vacation earned prior to termination or resignation. During the first 10 years of employment, employees earn vacation at the rate of 2 weeks per year; after 10 years, 3 weeks per year; and after 20 years, 4 weeks of vacation are earned each year.

All full-time employees earn sick leave at the rate of one calendar day per month up to a maximum of 1,040 hours. Upon retirement or termination, any employee in good standing, employed for two years or more, shall be compensated for accrued sick leave at the rate of one-half of his or her regular rate of pay.

The costs of compensated absences are recorded at the time the benefits are paid to employees.

5. Compliance with Kansas Law

Management is not aware of any statutory violations for the year 2011.

6. Cash and Certificates of Deposit

The carrying amount of the District's cash and certificates of deposit at December 31, 2011 was \$71,880 and the bank statement balances were \$75,962. Differences between the carrying amounts and the bank statement balances were deposits in transit and/or outstanding checks. The balances were entirely covered by Federal Deposit Insurance Corporation coverage.

BUTLER COUNTY FIRE DISTRICT #3

Notes to Financial Statements

December 31, 2011

6. Cash and Certificates of Deposit (continued)

Applicable state statutes authorize the District to invest in (1) temporary notes or no-fund warrants issued by the governmental unit; (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks; (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the state Treasurer's office; and (7) trust departments of commercial banks.

All of the District's cash was Category 1 for risk purposes.

7. Bonded Indebtedness

During the year 2003 the District issued general obligations bonds in the amount of \$1,500,000 to fund the greater part of constructing a new facility located in the City of Rose Hill, Kansas. The new station was substantially completed in January 2004. The general obligation bonds are serviced by Butler County.

In 2011 Butler County paid on behalf of Butler County Fire District #3 principal payments totaling \$65,000 and interest payments totaling \$41,493. The remaining long-term debt for the Fire District is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 70,000	\$ 39,543	\$ 109,543
2013	70,000	37,372	107,372
2014	75,000	35,133	110,133
2015	75,000	32,620	107,620
2016	80,000	29,995	109,995
2017-2021	460,000	101,915	561,915
2022-thereafter	215,000	13,870	228,870
Total	<u>\$1,045,000</u>	<u>\$290,448</u>	<u>\$1,335,448</u>

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Notes to Financial Statements  
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8. Loan Obligations

The District approved purchasing a fire truck at a special meeting in December 2010. The financing arrangement for this fire truck was approved at the February 2011 board meeting. The truck was purchased with \$150,000 special equipment reserve funds on hand with the district and the remaining \$36,200 was provided in a loan from the Butler County Fire District #3 Fireman's Relief Association per K.S.A. 40-1707(f) with a 4% interest rate. An interest payment of \$740 was made in October 2011 and the remaining loan balance will be repaid according to the following schedule:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 7,240	\$ 1,325	\$ 8,565
2013	7,240	1,028	8,268
2014	7,240	733	7,973
2015	7,240	440	7,680
2016	<u>7,240</u>	<u>146</u>	<u>7,386</u>
Total	<u>\$ 36,200</u>	<u>\$ 3,672</u>	<u>\$ 39,872</u>