

BUTLER COUNTY FIRE DISTRICT #3
(A Related Municipal Entity of Butler County, Kansas)

Financial Statement
December 31, 2012

with
Independent Auditors' Report

BUTLER COUNTY FIRE DISTRICT #3
Financial Statement
Year Ended December 31, 2012
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Butler County Fire District #3

We have audited the accompanying fund summary statement of cash receipts, expenditures, and unencumbered cash balances - regulatory basis of Butler County Fire District #3 (a related municipal entity of Butler County, KS) as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement 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 and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Butler County Fire District #3 to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Butler County Fire District #3 as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Butler County Fire District #3 as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, schedule of regulatory basis receipts and expenditures-agency funds (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. 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 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, 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 basic financial statement as a whole, on the basis of accounting described in Note 1.

March 20, 2014

Peterson Peterson & Soss, LC

BUTLER COUNTY FIRE DISTRICT #3
 Summary of Cash Receipts, Expenditures and Unencumbered Cash
 Regulatory Basis
 Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash	Cash Receipts	Expenditures	Ending Unencumbered Cash	Add Outstanding Encumbrances	Ending Cash Balance
Governmental Fund Types:						
General	\$ 15,485	\$ 311,299	\$ 309,396	\$ 17,388	\$ 103	\$ 17,491
Special Purpose:						
Special Equipment Reserve	55,714	9,103	1,353	63,464	-	63,464
Bond and Interest	-	109,543	109,543	-	-	-
Total	<u>\$ 71,199</u>	<u>\$ 429,945</u>	<u>\$ 420,292</u>	<u>\$ 80,852</u>	<u>\$ 103</u>	<u>\$ 80,955</u>

Composition of Cash:

Checking account - Rose Hill Bank	\$ 40,373
Certificate of deposit - Rose Hill Bank	40,582
Total	<u>\$ 80,955</u>

The notes to the financial statement are an integral part of this statement.

BUTLER COUNTY FIRE DISTRICT #3
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 Year Ended December 31, 2012

<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 Over (Under)</u>
General	\$ 312,330	\$ -	\$ 312,330	\$ 309,396	\$ (2,934)
Debt Service	109,543	-	109,543	109,543	-

The notes to the financial statement are an integral part of this statement.

BUTLER COUNTY FIRE DISTRICT #3
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 General Fund
 Regulatory Basis
 Year Ended December 31, 2012

	Actual	Budget	Variance Over (Under)
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem property tax	\$ 113,086	\$ 262,002	\$ (148,916)
Delinquent tax	-	6,500	(6,500)
Motor vehicle tax	-	43,828	(43,828)
EMS rent	2,579	-	2,579
Grants and donations	-	-	-
Hail damage insurance proceeds	-	-	-
Sale of equipment	65	-	65
Other	3,134	-	3,134
Total cash receipts - District	118,864	312,330	(193,466)
In-kind County payments	192,435	-	192,435
Total receipts and in-kind payments	311,299	312,330	(1,031)
Expenditures:			
Contractual services, etc.	67,634	\$ 100,000	\$ 32,366
Commodities/supplies	18,270	-	(18,270)
Vehicle expenses	14,667	-	(14,667)
Equipment	7,671	-	(7,671)
Transfer to Special Equipment Reserve Fund	8,719	-	(8,719)
County payments of personnel expenses	192,435	212,330	19,895
Total expenditures	309,396	\$ 312,330	\$ 2,934
Receipts Over (Under) Expenditures	1,903		
Unencumbered Cash, Beginning	15,485		
Unencumbered Cash, Ending	\$ 17,388		

The notes to the financial statement are an integral part of this statement.

BUTLER COUNTY FIRE DISTRICT #3
 Schedule of Cash Receipts and Expenditures - Actual
 Special Equipment Reserve Fund
 Regulatory Basis
 Year Ended December 31, 2012

	Actual
Cash Receipts:	
Interest	\$ 384
Transfer from General Fund	8,719
Total receipts	9,103
Expenditures:	
Equipment	1,353
Total expenditures	1,353
Receipts Over (Under) Expenditures	7,750
Unencumbered Cash, Beginning	55,714
Unencumbered Cash, Ending	\$ 63,464

The notes to the financial statement are an integral part of this statement.

BUTLER COUNTY FIRE DISTRICT #3
 Schedule of Cash Receipts and Expenditures - Actual and Budget
 Bond and Interest Fund
 Regulatory Basis
 Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under)</u>
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem property tax	\$ -	\$ 93,278	\$ (93,278)
Delinquent tax	-	2,500	(2,500)
Motor vehicle tax	-	13,772	(13,772)
In-kind County payments	<u>109,543</u>	<u>-</u>	<u>109,543</u>
Total receipts	109,543	109,550	(7)
 Expenditures:			
County payment of principal	70,000	70,000	-
County payment of interest	<u>39,543</u>	<u>39,543</u>	<u>-</u>
Total expenditures	<u>109,543</u>	<u>\$ 109,543</u>	<u>\$ -</u>
 Receipts Over (Under) Expenditures	-		
 Unencumbered Cash, Beginning	<u>-</u>		
 Unencumbered Cash, Ending	<u>\$ -</u>		

Note: The Bond and Interest Fund is maintained by the Butler County Treasurer.

The notes to the financial statement are an integral part of this statement.

BUTLER COUNTY FIRE DISTRICT #3
Notes to Financial Statement
December 31, 2012

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 statement. The financial statement 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

The financial activities of the District are recorded and presented on the basis of funds. The following types of funds comprise the financial activities of the Butler County Fire District #3, Kansas for the year 2012:

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds – used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund – used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

BUTLER COUNTY FIRE DISTRICT #3
Notes to Financial Statement
December 31, 2012

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

2. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, 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 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

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. There were no such budget amendments for this year.

BUTLER COUNTY FIRE DISTRICT #3

Notes to Financial Statement

December 31, 2012

2. Budgetary Information (continued)

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 schedules 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 regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures including disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's 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.

A legal operating budget is not required for capital project funds, trust funds, and the Special Equipment Reserve fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

3. Defined Benefit Pension Plan

Plan description. The District participates in the Kansas Public Employees Retirement System (KPERS). It is part of a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-419 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

BUTLER COUNTY FIRE DISTRICT #3

Notes to Financial Statement

December 31, 2012

4. Interfund Transfers

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>
General Fund	Special Equipment Reserve	\$ 8,719

5. 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 200 hours of 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 5 years of employment, employees earn vacation at the rate of 80 hours per year; after 5 years, 96 hours; after 10 years, 120 hours per year; and after 20 years, 160 hours per year.

All full time employees earn sick leave at the rate of one calendar day per month up to a maximum of 1040 hours. Upon retirement or termination, any employee in good standing, employed two years or more, shall be compensated for accrued sick leave at the rate of one-fourth of his or her regular rate of pay.

6. Compliance with Kansas Law

Management is not aware of any statutory violations for the year 2012.

7. Deposits and Investments

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka

Deposits

The carrying amount of the District's cash and certificates of deposit at December 31, 2012 was \$80,955 and the bank statement balances were \$85,737. 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 Statement

December 31, 2012

7. Deposits and Investments (continued)

Investments

Kansas statutes authorize the District to invest in U.S. Treasury bills and notes, repurchase agreements and the State Treasurer's investment pool. All investments must be insured, registered, or held by the District or its agent in the District's name. The District's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer bank's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer bank. Of the three risk categories, the investments classified in Risk Category 1 have the least risk to the District. December 31, 2012, all the District investments were categorized as Risk Category 1.

8. 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 2012 Butler County paid on behalf of Butler County Fire District #3 principal payments totaling \$70,000 and interest payments totaling \$39,543. The remaining long-term debt for the Fire District is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>215,000</u>	<u>13,870</u>	<u>228,870</u>
Total	<u>\$ 975,000</u>	<u>\$250,905</u>	<u>\$1,225,905</u>

BUTLER COUNTY FIRE DISTRICT #3

Notes to Financial Statement

December 31, 2012

9. 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>
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>\$ 28,960</u>	<u>\$ 2,347</u>	<u>\$ 31,307</u>

10. 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.

11. Subsequent Events

Subsequent events have been evaluated through March 20, 2014, which is the date the financial statement was available to be issued. Events requiring disclosure, if any, were identified and disclosed.