

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**COMPARATIVE FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**  
**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, 2012 and 2011, and the related statements of operations, 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. 1 as of December 31, 2012 and 2011, 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.

**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 is presented for purposes of additional analysis and is not a required part of the financial statements. 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 financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, and accordingly, we do not express an opinion or provide any assurance on it.

*Kirkpatrick, Sprecker & Company, LLP*  
KIRKPATRICK, SPRECKER & COMPANY, LLP

February 8, 2013

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**COMPARATIVE BALANCE SHEETS**  
**December 31, 2012 and 2011**

**ASSETS**

	<b><u>2012</u></b>	<b><u>2011</u></b>
Cash and cash equivalents		
Cash in bank	\$ 1,015,582	\$ 748,070
Certificates of deposit	1,034,530	1,024,793
Total cash and cash equivalents	2,050,112	1,772,863
Accounts receivable - customers	80,989	61,701
Notes receivable	269,287	289,320
Accrued interest receivable	1,292	1,579
Inventory - materials	1,166	1,166
Property and equipment - at cost		
Phase I	2,434,974	2,434,974
Phase II	1,665,491	1,665,491
Extensions and upgrades	2,414,499	1,659,432
Total cost of property and equipment	6,514,964	5,759,897
Less accumulated depreciation	3,859,652	3,712,487
Property and equipment - net of depreciation	2,655,312	2,047,410
Unamortized bond issuance cost	15,170	-
Total assets	5,073,328	4,174,039

**LIABILITIES AND FUND EQUITY**

Liabilities		
Accounts payable	139,288	52,706
Bonds payable	585,000	-
Unearned revenue	12,600	9,300
Total liabilities	736,888	62,006
Fund Equity		
Reserved for bond requirements		
Bond reserve	58,500	-
Unreserved	4,277,941	4,112,033
Total equity	4,336,440	4,112,033
Total liabilities and fund equity	5,073,328	4,174,039

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 EQUITY**  
**For the Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating revenue		
Sales - retail	\$ 651,123	\$ 642,701
Sales - commercial	<u>248,515</u>	<u>259,053</u>
	899,638	901,754
Donations for water meters	25,700	60,300
Connection charges	52,353	14,400
Customer services	<u>10,879</u>	<u>2,734</u>
Total operating revenue	<u>988,570</u>	<u>979,188</u>
Operating expenses		
Water purchases	396,816	398,023
Depreciation	147,165	149,221
System repairs	42,297	99,970
Accounting and office services	54,892	56,240
Maintenance contract	38,430	37,013
Connections	34,523	34,261
Utilities	29,795	26,736
Miscellaneous	17,417	15,701
Office supplies and postage	6,497	10,017
Engineering	1,193	9,168
Insurance	7,135	7,171
Independent audit	9,200	4,600
Water protection fee	3,232	4,092
Supplies	3,011	3,391
Water testing	956	1,076
Legal	<u>275</u>	<u>481</u>
Total operating expenses	<u>792,834</u>	<u>857,161</u>
Earnings from operations before interest income	195,736	122,027
Interest income	<u>28,671</u>	<u>35,149</u>
Net income	224,407	157,176
Fund equity at beginning of year	<u>4,112,033</u>	<u>3,954,857</u>
Fund equity at end of year	<u>4,336,440</u>	<u>4,112,033</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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Net income	\$ 224,407	\$ 157,176
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	147,165	149,221
(Increase) decrease in accounts receivable	(19,288)	(7,295)
Decrease in accrued interest receivable	287	995
Decrease in deposits	-	200
Increase (decrease) in accounts payable	77,262	20,974
Increase (decrease) in unearned revenue	3,300	600
Net Cash Provided by Operating Activities	<u>433,133</u>	<u>321,871</u>
Cash Flows From Investing Activities		
Principal received on notes receivable	20,033	19,049
Purchase of property assets	<u>(755,067)</u>	<u>(90,929)</u>
Net Cash Applied to Investing Activities	<u>(735,034)</u>	<u>(71,880)</u>
Cash Flows From Financing Activities		
Issuance of Bond	585,000	-
Bond issuance costs	<u>(5,850)</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>579,150</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	277,249	249,991
Cash and Cash Equivalents - Beginning of Year	<u>1,772,863</u>	<u>1,522,872</u>
Cash and Cash Equivalents - End of Year	<u>2,050,112</u>	<u>1,772,863</u>

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, 2012 and 2011**

1. Summary of significant accounting policies

Description of operations

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 975 benefit unit holders in the District at December 31, 2012, compared to 972 at December 31, 2011.

Basis of accounting

The Water 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 water 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 fifteen years.

(continued)

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

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.

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, 2012 and 2011:

	<u>2012</u>	<u>2011</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%	\$ 222,074	\$ 239,461
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>47,213</u>	<u>49,859</u>
Total notes receivable	<u>269,287</u>	<u>289,320</u>

Scheduled interest and principal requirements as of December 31, 2012, are as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2013	\$ 13,174	\$ 20,992	\$ 34,166
2014	12,091	22,075	34,166
2015	10,951	23,214	34,165
2016	9,752	24,413	34,165
2017	8,491	25,674	34,165
2018 and thereafter	<u>21,979</u>	<u>152,919</u>	<u>174,898</u>
Totals	<u>76,438</u>	<u>269,287</u>	<u>345,725</u>

The notes receivable are current through December 31, 2012.

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

3. Bond Payable

The District incurred a bond payable at the end of December 2012. Payments are not due until 2013. Principal payments are due December 1, while interest payments are due June 1 and December 1. No payments were due as of December 31, 2012.

The following is an analysis of bonds payable at December 31, 2012:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2013	\$ 3,458	\$ 115,000	\$ 118,458
2014	3,310	115,000	118,310
2015	2,850	115,000	117,850
2016	2,160	120,000	122,160
2017	<u>1,200</u>	<u>120,000</u>	<u>121,200</u>
Totals	<u>12,978</u>	<u>585,000</u>	<u>597,978</u>

4. Commitment

The District entered into a contract with Maguire Iron to construct a new water tower for \$940,000, plus interest. As of December 31, 2012, the District has made payments of \$636,000, leaving a balance of \$304,000 to be paid in 2013. The expected completion date for the tower is 2013.

The District has an agreement with Aqua Tech Engineering Consultants related to the design and construction of the new water tower. Costs are incurred as services are performed. There is no set contract amount.

5. FDIC coverage and other security for cash deposits

The Water District's cash deposits were adequately secured by FDIC insurance or pledged depository security during the years ending December 31, 2012 and 2011.

6. Compliance with Kansas Statutes

There were no statutory violations during the years ended December 31, 2012 and 2011.

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 \$248,515 in 2012 and \$259,053 in 2011. The percent of water sales per city to total operating revenue in 2012, were: Douglass 14.32%; Leon 9.56%; and Latham 1.27%. The percent of water sales per city to total operating revenue in 2011, were: Douglass 15.79%; Leon 9.48%; and Latham 1.25%.

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.

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

9. Subsequent Events

The District has evaluated subsequent events through February 8, 2013, the date which the financial statements were available to be issued, and none requiring disclosure were identified.

10 Financial statement presentation

Certain amounts in the 2011 financial statements, presented for comparative purposes, have been reclassified to conform to the 2012 presentation.

**SUPPLEMENTARY INFORMATION**

**BUTLER COUNTY RURAL WATER DISTRICT NO. 6**  
**SCHEDULE OF INSURANCE COVERAGE\***  
**December 31, 2012**

<b><u>Coverage</u></b>	<b><u>Amount</u></b>
Insurer: Insurance Center, Inc.	
Annual Premium: \$8,674	
Policy Expires: 5/20/13	
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
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)	1,795,965
Pump stations (Coinsurance is 90% (10% on earthquakes) with \$2,500 deductible)	739,171
Monitor control system (Coinsurance is 90% (10% on earthquakes) with \$2,500 deductible)	70,127
Portable generator and trailer (2) (Coinsurance is 80% with \$250 Deductible)	37,537
Aqua scope (Coinsurance is 80% with \$250 Deductible)	1,675
Portable monitor (Coinsurance is 80% with \$250 Deductible)	4,160
Billing software - data and media (Coinsurance is 80% with \$250 Deductible)	11,500
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.