

**PUBLIC WHOLESALE WATER
SUPPLY DISTRICT NO. 5**

Iola, Kansas

Independent Auditors' Report
and Financial Statement with
Supplementary Information

For the Year Ended
September 30, 2017

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO.5
Iola, Kansas

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JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Public Wholesale Water Supply District No. 5
Iola, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Public Wholesale Water Supply District No. 5, Iola, Kansas, a municipality, as of and for the year ended September 30, 2017, 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, this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. 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.

Auditors' 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 Public Wholesale Water Supply District No. 5, 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 Public Wholesale Water Supply District No. 5, of September 30, 2017, 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 Public Wholesale Water Supply District No. 5, as of September 30, 2017, 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.

Other Matters

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 individual fund schedules of regulatory basis receipts and expenditures – actual (Schedule 1 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however, is 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.

The 2016 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures – actual (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2016 basic financial statement upon which we rendered an unmodified opinion dated February 6, 2017. The 2016 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://admin.ks.gov/offices/chief-financial-officer/municipal-services>. Such 2016 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 basic financial statement. The 2016 comparative information was subjected to the auditing procedures applied in the audit of the 2016 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 2016 basic financial statement or to the 2016 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 2016 comparative information is fairly stated in all material respects in relation to the 2016 basic financial statement as a whole, on the basis of accounting described in Note 1.

Other Information

Our audit was conducted for the purpose of forming opinions on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The schedule of costs of operations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of costs of operations (Schedule 2 as listed in the table of contents) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

December 4, 2017
Chanute, Kansas

Statement 1

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 5

Iola, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis

For the Year Ended September 30, 2017

Funds	Beginning Unencumbered Cash Balance		Receipts	Expenditures	Ending Unencumbered Cash Balance		Add Encumbrances and Accounts Payable	Ending Cash September 30, 2017
	Cash Balance	Unencumbered Cash Balance			Cash Balance	Unencumbered Cash Balance		
Business Funds:								
Water Utility	\$ 303,525.43	\$ 303,525.43	\$ 603,455.26	\$ 479,603.21	\$ 427,377.48	\$ 28,466.03	\$ 455,843.51	
Total Reporting Entity	\$ 303,525.43	\$ 303,525.43	\$ 603,455.26	\$ 479,603.21	\$ 427,377.48	\$ 28,466.03	\$ 455,843.51	
Composition of Cash:								
Petty Cash.....							\$	100.00
Emprise Bank								
Checking Account.....								283,543.49
Bank of Commerce - Erie								
Certificates of Deposit.....								76,037.90
Goppert State Service Bank - Colony								
Certificates of Deposit.....								96,162.12
Total Cash.....							\$	455,843.51

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

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 5

Iola, Kansas

Notes to Financial Statement

September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Public Wholesale Water Supply District No. 5, Iola, Kansas, is located in Allen County, Kansas. The District produces and sells water to eleven (11) users (small cities and rural water districts). Accordingly, the District's operations are dependent upon the economic conditions of the area.

Related Municipal Entities: A related municipal entity is determined by the following criteria. Whether the District exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the District. Related municipal entities are not required to be included in the District's audit by the Kansas Municipal Audit and Accounting Guide (KMAAG).

The District has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a related municipal entity in the financial statement.

Regulatory Basis Fund Types

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 Public Wholesale Water Supply District No. 5, Iola, Kansas for the year of 2017:

Business fund – funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund etc.)

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The Kansas Municipal Audit and Accounting Guide (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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 municipality to use the regulatory basis of accounting.

Property and Equipment

The accounting and reporting treatment used for property and equipment under the cash basis laws of Kansas require that property and equipment be recorded as an expenditure during the year of purchase.

Income Taxes

Public Wholesale Water Supply District No. 5, Iola, Kansas is recognized by the Internal Revenue Service as a quasi-municipal corporation under K.S.A. 88a-616, and is exempt from Federal and Kansas income taxes. Accordingly, this financial statement does not present a provision for income taxes.

Use of Estimates

Estimates and assumptions are used by management in preparing the financial statement. Those estimates and assumptions affect the reporting amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses.

Reimbursed Expenses

K.S.A. 79-2934 provides that reimbursed expenditures, in excess of those budgeted, should be recorded as reductions in expenditures rather than as revenues. In the financial statement presented in this report, reimbursements and refunds are recorded as revenues. The reimbursements are recorded as cash receipts when received by the District and are often difficult to identify the exact expenditure which they are reimbursing.

Pension Plan

Substantially all full-time District employees are members of the State of Kansas Public Employees Retirement System, which is a multi-employer state-wide pension plan. The District's policy is to fund all pension costs accrued. Such costs to be funded are actuarially determined annually by the State of Kansas.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Kansas Statutes

Statement 1 is designed to show compliance with the cash basis laws of Kansas. As shown in Statement 1, the District was in apparent compliance with the cash basis laws of Kansas.

3. DEPOSITS AND INVESTMENTS

K.S.A 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main branch or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

3. DEPOSITS AND INVESTMENTS (Continued)

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

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.

At year-end, the District's carrying amount of deposits was \$455,743.51 and the bank balance was \$461,006.48. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$422,200.02 was covered by FDIC insurance, and the remaining \$38,806.46 was collateralized by pledged securities held by the pledging financial institutions' agent in the District's name.

4. CUSTOMER RECEIVABLES

Customers are billed at the end of each month. As of September 30, 2017, total customer receivables were \$50,239.97, of which \$ 375.00 was more than 30 days past due. These customer receivables are not reflected in these regulatory basis financial statements.

5. DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description. The District 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. Kansas law establishes and amends benefit provisions. KPERS issues a publically available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member 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 rates for KPERS 1, KPERS 2, and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the contribution which had a 0% moratorium from April 1, 2016 until June 30, 2017 for Death and Disability Program) and the statutory contribution rate was 9.18% from October 1, 2016 to December 31, 2016 and 8.46% from January 1, 2017 to September 30, 2017 for the fiscal year ended September 30, 2017. Contributions to the pension plan from the District were \$13,210.78 for the year ended September 30, 2017.

5. DEFINED BENEFIT PENSION PLAN (Continued)

Net Pension Liability

At September 30, 2017, the District's proportionate share of the collective net pension liability reported by KPERS was \$118,874.00. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016. The District's proportion of the net pension liability was based on the ratio of the District's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in these financial statements.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

6. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

The District's full-time employees are entitled to three (3) weeks of vacation leave a year and employees can accumulate up to thirty (30) days of personal leave. All leave is lost if not used by September 30th of each year end. Therefore, the liability at September 30, 2017 is \$.00.

7. CONCENTRATION OF RISK

The District's customers are limited to seven rural water districts and four cities located in Anderson, Neosho, Crawford, and Allen counties. As such, the risk of accounting loss exists from the possibility that several customers will no longer purchase water from the District.

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through purchase of various insurance policies.

9. RELATED PARTY TRANSACTIONS

All board members of the District are representatives and customers of their respective Water Districts or Cities.

10. SUBSEQUENT EVENTS

The District evaluated events and transactions occurring subsequent to year end and there were no subsequent events requiring recognition in the financial statement. Additionally, there were no nonrecognized subsequent events requiring disclosure.

SUPPLEMENTARY INFORMATION

Schedule 1**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 5**

Iola, Kansas

Water Fund

Schedule of Receipts and Expenditures - Actual

Regulatory Basis

For the Year Ended September 30, 2017

(With Comparative Actual Amounts For the Prior Year Ended September 30, 2016)

	Prior Year Actual	Current Year Actual
Receipts		
Water Sales	\$ 578,200.92	\$ 587,315.96
Miscellaneous Income	6,971.96	15,251.35
Interest on Idle Funds	621.99	887.95
Total Receipts	<u>585,794.87</u>	<u>603,455.26</u>
Expenditures		
Personnel		
Salaries	142,987.59	152,932.56
Fringe Benefits	24,533.87	26,566.61
Contractual		
Telephone and Utilities	67,721.01	68,670.40
Maintenance Expense	65,617.20	30,564.87
Insurance and Professional Fees	40,327.00	49,373.00
Water Assurance District	9,217.88	9,266.36
Travel	18,485.32	18,152.50
Office and Lab Expense	22,928.95	18,694.78
Other Administrative Expense	1,528.85	667.70
Commodities		
Chemicals	79,296.02	93,471.36
Capital Outlay		
Capital Outlay	<u>19,500.00</u>	<u>11,243.07</u>
Total Expenditures	<u>492,143.69</u>	<u>479,603.21</u>
Cash Receipts Over (Under) Expenditures	93,651.18	123,852.05
Unencumbered Cash, Beginning	<u>209,874.25</u>	<u>303,525.43</u>
Unencumbered Cash, Ending	<u>\$ 303,525.43</u>	<u>\$ 427,377.48</u>

Schedule 2**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 5**

Iola, Kansas

Schedule of Cost of Operations
For the Year Ended September 30, 2017

	Current Year Totals	Cost of Operations	Administration
Expenses			
Salaries	\$ 152,932.56	\$ 121,663.38	\$ 31,269.18
Fringe Benefits	26,566.61	19,854.52	6,712.09
Chemicals	93,471.36	93,471.36	-
Telephone and Utilities	68,670.40	65,592.70	3,077.70
Maintenance Expense	30,564.87	30,564.87	-
Insurance and Professional Fees	49,373.00	14,320.12	35,052.88
Water Assurance District	9,266.36	9,266.36	-
Travel	18,152.50	14,402.50	3,750.00
Office and Lab Expense	18,694.78	11,187.31	7,507.47
Miscellaneous Expense	667.70	-	667.70
Capital Outlay	11,243.07	11,243.07	-
Total Expenses	479,603.21	391,566.19	88,037.02
Adjustments:			
Less: Capital Equipment	(11,243.07)	(11,243.07)	-
Add: Depreciation Expense	133,012.70	133,012.70	-
Total Operating Expenses	\$ 601,372.84	\$ 513,335.82	\$ 88,037.02
Gallons of Water Produced	189,391,000	189,391,000	189,391,000
Cost Per 1000/Gallons	\$ 3.18	\$ 2.71	\$ 0.46



Public Wholesale Water
Supply District No. 5
1798 Oregon Road
Iola, Kansas 66749

In planning and performing our audit of the financial statement of Public Wholesale Water Supply District No. 5, Iola, Kansas, as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Public Wholesale Water Supply District No. 5's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Public Wholesale Water Supply District No. 5's internal control to be material weaknesses:

Preparation of Financial Statement

In prior years, the auditor was considered the compensating control for preparation of the District's financial statement, including footnotes. However, professional standards do not allow the auditor to be a compensating internal control for the District. The new standard states the client must be able to accept responsibility and be able to identify a material misstatement when handed the financial statement, including footnotes. This would also include knowing if a required footnote disclosure was missing or not correctly stated. Presently, the District staff does not have the ability to process and prepare the required financial statement, including footnotes. While we recognize that this condition is not unusual for a district your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Jarred, Gilmore & Phillips, PA
CERTIFIED PUBLIC ACCOUNTANTS

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Segregation of Duties

An internal control structure is, quite simply, the procedures and policies in effect which ensure that the District's financial activity is properly recorded, processed, summarized, and reported in the financial statement. A weakness in the control structure occurs when one person is responsible for all of the accounting activities such as receipt of cash, preparing the bank deposits, reconciling the bank account to the ledger book, and preparing cash payments. We would remind the District board members responsible for approval and the signing of checks to be diligent in his/her responsibilities. All disbursements approved should have original invoices attached and should be reviewed thoroughly before approval.

This communication is intended solely for the information and use of the Board of Directors, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

December 4, 2017
Chanute, Kansas