

**Public Wholesale Water Supply District #26
Chase County, Kansas**

**Regulatory Basis Financial Statement and
Independent Auditors' Report**

For the Year Ended December 31, 2017

**Cindy Jensen, CPA
218 W. Main St.
Council Grove. Ks. 66846
(620)767-5064**

**Public Wholesale Water Supply District #26
Chase County, Kansas**

Regulatory Basis Financial Statement
For the Year Ended December 31, 2017

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Cindy Jensen

Certified Public Accountant

218 W Main
Council Grove, KS 66846

620-767-5064
c.jensen@tctelco.net

Independent Auditors' Report

To the Board
Public Wholesale Water Supply District #26
Chase County, Kansas

I have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Public Wholesale Water Supply District #26, Chase County, Kansas as of and for the year ended December 31, 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 to meet the financial reporting requirements of the State of Kansas; 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.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statement based on my audit. I conducted my 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 that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit includes 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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

As described in Note 1 of the financial statement, Public Wholesale Water Supply District #26, Chase County, Kansas prepared this financial statement 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 the U.S. Generally Accepted Accounting Principles

In my opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the 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 Public Wholesale Water Supply District #26, Chase County, Kansas, as of December 31, 2017, or the changes in its financial position or cash flows for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In my 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 #26, Chase County, Kansas, as of December 31, 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.

Report on Regulatory – Required Supplementary Information

My audit was conducted for the purpose of forming an opinion on the 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 (schedule 1 as listed in the table of contents) is presented for analysis and are not a required part of the basic financial statement but 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 my 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.



Cindy Jensen, CPA
September 5, 2018

Public Wholesale Water Supply District #26
Chase County, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2017

	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances & Accounts Payable	Ending Cash Balance
Bond & Interest Fund							
Bond & Interest	\$ 32,039	\$ 0	\$ 22,851	\$ 52,083	\$ 2,807	\$ 0	\$ 2,807
Special Purpose Funds							
Bond P&I Reserve	11,101	0	27,027	0	38,128	0	38,128
Bond Reserve	11,013	0	11,013	0	22,026	0	22,026
Short Lived Asset Replacement	22,057	0	22,057	25,700	18,414	0	18,414
Capital Project Fund							
Water Supply Project	(77,508)	0	1,351	673	(76,830)	78,441	1,611
Business Fund							
Water	55,088	0	305,537	310,992	49,633	3,730	53,363
Total Reporting Entity	\$ 53,790	\$ 0	\$ 389,836	\$ 389,448	\$ 54,178	\$ 82,171	\$ 136,349
Composition of Cash Balance:							
Checking-Operations							\$ 132,938
Checking-Grants							3,411
Total Reporting Entity							\$ 136,349

The accompanying notes are an integral part of this statement.

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2017

Note 1 – Summary of Significant Accounting Policies

The District has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The more significant of the District's accounting policies are described below.

Financial Reporting Entity

Public Wholesale Water Supply District #26 (PWWSD#26) was organized in 2012 as a quasi-municipal corporation governed by an appointed board, represented by each of the three participating entities; the City of Strong City, the City of Cottonwood Falls, and Chase County Rural Water District No. 1. The District has no related municipal entities.

Regulatory Basis Fund Types

The accounts of the District are organized and operated on the basis of funds, which are used to record the District's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State statutes. The following types of funds comprise the financial activities of the District:

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

Capital Project fund – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

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

Business fund – these funds are financed in whole, or in part, by fees charged to users of the goods and services.

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 receipts and regulatory basis expenditures of 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, 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.

Budgetary Information

Public water districts are not subject to Kansas statutes regarding a legally adopted budget.

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2017

Note 2 – Stewardship, Compliance, and Accountability

Compliance with Finance-Related Legal and Contractual Provisions

References made herein to the statutes are not intended as interpretations of law but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the municipality.

K.S.A. 10-1113 requires that no indebtedness be created in a fund in excess of available monies in that fund. The beginning and ending balances in the Water Supply Project fund were negative. This occurred due to encumbrances that were reimbursed by grants in subsequent years, and therefore, no regulatory violation occurred.

The district's bond agreement requires the district to place 1/12 of the next years payment into the Principal and Interest Reserve account each month. The district did not transfer sufficient funds to cover the payment and made the payment from the Water fund.

Management is not aware of any other regulatory violations for the period covered by this audit.

Note 3 – Cash and Deposits

K.S.A. 9-1401 established the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main 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.

Concentration of Credit Risk - State statutes place no limit on the amount the Municipality 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, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2017.

At year-end, the carrying amount of the District's deposits was \$136,349. Actual bank statement balances were \$164,851. The difference between the carrying amount and the bank balance is composed of checks that have not cleared and deposits in transit. The bank balance was held at two banks resulting in a concentration of credit risk. The entire bank balance was covered by FDIC insurance. The District held no investments on December 31, 2017.

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2017

Note 4 – Ad Valorem Tax Revenues and Property Taxes Receivable

The determination of assessed valuations and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the County. The County Appraiser annually determines assessed valuations based on real estate transactions recorded by the Register of Deeds and personal property transactions reported by taxpayers. The County Clerk spreads the annual assessment on the tax rolls. The County Treasurer is the tax collection agent for all taxing entities within the County.

In accordance with State statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. One-half of the property tax is due December 20th, and the second half is due the following May 10th. Any taxes unpaid at the due dates are considered delinquent.

Undistributed taxes from the prior year levy are recognized as income in the current year. It is not practicable to apportion delinquent taxes held by the County Treasurer at year end and, further, the amounts are not material in relationship to the financial statements taken as a whole.

Note 5 – Contracts and Commitments

The District entered into a contract with the City of Strong City to obtain clerical services. PWWS#26 agrees to reimburse the City based on the hourly rate of the employee, including leave, benefits and employer payroll taxes plus an additional 10%. The term of the agreement is for one year and continues indefinitely until either party gives written notice.

The District entered into a contract with the City of Cottonwood Falls and the City of Strong City to obtain water system operator services. The City of Strong City agrees to operate the plant on Monday through Friday. The City of Cottonwood Falls will operate the plant when Strong City personnel are absent and shall alternate holiday and weekend duties with Strong City personnel. The District agrees to reimburse the Cities based on the hourly rate of the employee, including leave, benefits, and employer payroll taxes plus an additional 10%. The term of the agreement is for one year and continues indefinitely until either party gives written notice.

The District entered into agreements with the City of Strong City, the City of Cottonwood Falls, and Chase County Rural Water District #1 for the sale of water. The initial sales price of water will be \$5.29 per thousand gallons and each entity agrees to purchase a minimum quantity to help defray the payment of debt service and production of water. The contracts extend forty years from the date of the initial delivery of water.

The District entered into contracts with the City of Strong City and the City of Cottonwood Falls to lease each City's existing water wells. The District will pay each entity \$100 annually for a term of forty years or as long as the lessee produces potable water in sufficient quantities, whichever occurs first.

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2017

Note 6 – Long-Term Debt

No-Fund Warrants. The District issued \$225,000 of No-Fund warrants on May 1, 2012. The No-Fund warrants carry interest of 3.75% and five annual payments were scheduled beginning May 1, 2013. The final payment was made in 2017.

The District issued \$2,359,000 of No-Fund warrants on May 30, 2013. The No-Fund warrants carried interest of 2.47% and one payment was scheduled May 30, 2016. This temporary financing was paid by the issuance of Series 2015-A Revenue bonds which were purchased by USDA Rural Development. On May 21, 2015, the District issued Series 2015-A and Series 2015-B Revenue bonds in the amount of \$2,359,000 and \$255,000 respectively. The bonds carry interest of 2.75%. Forty annual payments beginning June 25, 2016 are scheduled with the first principal payment on June 25, 2017 and the last payment June 25, 2055.

Changes in Long-Term debt for the year ended December 31, 2017 were as follows:

	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Due January 1	Additions	Reductions/ Payments	Balance Due December 31	Interest Paid
No Fund Warrants Ser A20	3.75%	5/1/2012	225,000	5/1/2018	\$ 50,200	\$ 0	\$ 50,200	\$ 0	\$ 1,883
Series 2015A Rev Bds	2.75%	5/21/2015	2,359,000	6/25/2055	2,359,000	0	34,000	2,325,000	64,872
Series 2015B Rev Bds	2.75%	5/21/2015	255,000	6/25/2055	255,000	0	4,000	251,000	7,013
Total contractual indebtedness					<u>\$ 2,664,200</u>	<u>\$ 0</u>	<u>\$ 88,200</u>	<u>\$ 2,576,000</u>	<u>\$ 73,768</u>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

Year	Series 2015A Revenue Bonds	Series 2015A Revenue Bonds	Series 2015A Revenue Bonds	Series 2015B Revenue Bonds	Series 2015B Revenue Bonds	Series 2015B Revenue Bonds
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 35,000	\$ 63,937	\$ 98,937	\$ 4,000	\$ 6,903	\$ 10,903
2019	36,000	62,975	98,975	4,000	6,792	10,792
2020	37,000	61,985	98,985	4,000	6,683	10,683
2021	38,000	60,967	98,967	4,000	6,572	10,572
2022	39,000	59,923	98,923	4,000	6,462	10,462
2023-2027	210,000	282,975	492,975	22,000	30,636	52,636
2028-2032	242,000	252,424	494,424	25,000	27,362	52,362
2033-2037	279,000	217,167	496,167	30,000	23,650	53,650
2038-2042	324,000	176,441	500,441	34,000	19,360	53,360
2043-2047	373,000	129,278	502,278	39,000	14,410	53,410
2048-2052	428,000	74,992	502,992	48,000	8,580	56,580
2053-2055	284,000	15,757	299,757	33,000	1,815	34,815
	<u>\$ 2,325,000</u>	<u>\$ 1,458,821</u>	<u>\$ 3,783,821</u>	<u>\$ 251,000</u>	<u>\$ 159,225</u>	<u>\$ 410,225</u>

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2017

Note 7 – Capital Projects

The District substantially completed the construction of a water treatment facility in 2016. The total original estimated cost of the project was \$5,270,400. The project funding consisted of a USDA Rural Development loan of \$3,359,000, a USDA-RD grant of \$1,911,400, and a CDBG grant of \$1,000,000. Upon the bidding of the project in August 2014, these estimated costs were increased to \$6,388,000. Funding consisted of a USDA-RD loan of \$2,614,000, a USDA-RD grant of \$2,774,000, and a CDBG grant of \$1,000,000. Project expenditures were \$6,408,174 including the local share.

Note 8 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Commercial insurance is purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

Note 9 – Transfers

<u>From</u>	<u>To</u>	<u>Authority</u>	<u>Amount</u>
Water	Bond P&I Reserve	Bond Res May 21, 2015	\$ 27,027
Water	Bond Reserve	Bond Res May 21, 2015	11,013
Water	Short Lived Assets	USDA Letter of Conditions	22,057

Note 10 – Evaluation of Subsequent Events

Management has evaluated events through September 5, 2018, that date which the financial statement was available to be issued.

**Regulatory – Required
Supplementary Information**

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 1A

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2017

BOND & INTEREST

	Current Year Actual
Receipts	
Taxes	\$ 22,851
Transfers in	0
Total Receipts	<u>22,851</u>
Expenditures	
Debt service	52,083
Other	0
Total Expenditures	<u>52,083</u>
Receipts Over (Under) Expenditures	(29,232)
Unencumbered Cash, January 1	<u>32,039</u>
Unencumbered Cash, December 31	<u>\$ 2,807</u>

See Accompanying Auditor's Report.

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 1B

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2017

BOND PRINCIPAL & INTEREST RESERVE

	<u>Current Year Actual</u>
Receipts	
Transfers In	\$ 27,027
Other	0
Total Receipts	<u>27,027</u>
Expenditures	
Bond Principal & Interest	<u>0</u>
Receipts Over (Under) Expenditures	27,027
Unencumbered Cash, January 1	<u>11,101</u>
Unencumbered Cash, December 31	<u><u>\$ 38,128</u></u>

See Accompanying Auditor's Report.

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 1C

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2017

BOND RESERVE

	<u>Current Year Actual</u>
Receipts	
Transfer in	\$ 11,013
Other	0
Total Receipts	<u>11,013</u>
Expenditures	
Bond payments	0
Other	0
Total Expenditures	<u>0</u>
Receipts Over (Under) Expenditures	11,013
Unencumbered Cash, January 1	<u>11,013</u>
Unencumbered Cash, December 31	<u><u>\$ 22,026</u></u>

See Accompanying Auditor's Report.

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 1D

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2017

SHORT LIVED ASSET REPLACEMENT

	<u>Current Year Actual</u>
Receipts	
Transfers In	\$ 22,057
Other	0
Total Receipts	<u>22,057</u>
Expenditures	
Short Lived Asset Replacement	25,700
Other	0
Total Expenditures	<u>25,700</u>
Receipts Over (Under) Expenditures	(3,643)
Unencumbered Cash, January 1	<u>22,057</u>
Unencumbered Cash, December 31	<u><u>\$ 18,414</u></u>

See Accompanying Auditor's Report.

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 1E

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2017

WATER SUPPLY PROJECT

	Current Year Actual
Receipts	
USDA grant	\$ 1,348
Miscellaneous reimbursements	0
Interest	3
Total Receipts	<u>1,351</u>
Expenditures	
Project expenditures	673
Interest expense	0
Local share preoperational costs	0
Total Expenditures	<u>673</u>
Receipts Over (Under) Expenditures	678
Unencumbered Cash, January 1	<u>(77,508)</u>
Unencumbered Cash, December 31	<u>\$ (76,830)</u>

See Accompanying Auditor's Report.

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 1F

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2017

WATER FUND

	Current Year Actual
Receipts	
Water sales	\$ 294,808
Interest	33
Other Receipts	10,696
Total Receipts	<u>305,537</u>
Expenditures	
Capital outlay	3,793
Chemicals	29,786
Contractual	7,116
Dues & fees	7,615
Equipment	0
Insurance	13,972
Operator & administrative reimbursements	24,674
Supplies & repairs	9,992
Telephone & utilities	40,137
Other expense	3,925
Loan payments	109,885
Transfers out	60,097
Total Expenditures	<u>310,992</u>
Receipts Over (Under) Expenditures	(5,455)
Unencumbered Cash, January 1	<u>55,088</u>
Unencumbered Cash, December 31	<u>\$ 49,633</u>

See Accompanying Auditor's Report.