

**PUBLIC WHOLESALE WATER  
SUPPLY DISTRICT NO. 23**

Independent Auditors' Report  
and Financial Statement  
with Supplementary Information

For the Year Ended  
December 31, 2017

**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23**

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
Independent Auditors' Report .....	1 - 3
<u>Statement 1</u>	
Summary Statement of Receipts, Expenditures, and Unencumbered Cash- Regulatory Basis .....	4
Notes to the Financial Statement .....	5 - 12
SUPPLEMENTARY INFORMATION:	
<u>Schedule 1</u>	
Schedule of Receipts and Expenditures – Actual – Regulatory Basis – (With Comparative Actual Amounts for the Prior Year):	
Water Utility Fund .....	13
Water Utility Bond Reserve Fund .....	14
Water Utility Replacement Reserve Fund.....	15
Water Utility Principal and Interest Fund .....	16
Water Utility Project Fund.....	17
Schedule of Expenditures of Federal Awards.....	18
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	19 – 20
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	21-22
Schedule of Findings and Questioned Costs .....	23 - 24
Summary Schedule of Prior Audit Findings .....	25
Corrective Action Plan.....	26

**JARRED, GILMORE & PHILLIPS, PA**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Public Wholesale Water Supply District No. 23  
Fredonia, 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. 23, 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; 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 District'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 District'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. 23 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. 23 as of December 31, 2017, or changes in financial position and cash flows thereof for the year then ended.

***Unmodified 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. 23 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.

***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 schedule of regulatory basis receipts and expenditures-actual (Schedule 1 as listed in the table of contents) is presented for analysis and is 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. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statement. 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.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of Public Wholesale Water Supply District No. 23 as of and for the year ended December 31, 2016 (not presented herein), and have issued our report thereon dated August 22, 2017, which contained an unmodified opinion on the basic financial statement. 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>. The 2016 actual column (2016 comparative information) presented in the individual fund schedules of regulatory basis receipts and expenditures-actual and budget for the year ended December 31, 2017 (Schedule 2 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement. 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 basic financial statement as a whole for the year ended December 31, 2016, on the basis of accounting described in Note 1.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2018, on our consideration of Public Wholesale Water Supply District No. 23's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Public Wholesale Water Supply District No. 23's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Wholesale Water Supply District No. 23's internal control over financial reporting and compliance.



JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

September 4, 2018  
Chanute, Kansas

Statement 1

**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23**

Fredonia, Kansas

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

For the Year Ended December 31, 2017

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash December 31, 2017
<b>Business Funds:</b>						
Water Utility	\$ 820,604.80	\$ 1,938,768.05	\$ 1,656,170.95	\$ 1,103,201.90	\$ 44,628.28	\$ 1,147,830.18
Water Utility Bond Reserve	517,560.07	69,011.08	-	586,571.15	-	586,571.15
Water Utility Replacement Reserve	114,514.00	129.60	-	114,643.60	-	114,643.60
Water Utility Principal and Interest	339,906.70	672,528.34	671,766.14	340,668.90	-	340,668.90
Water Utility Project Fund	1.02	3,113,014.72	3,715,932.86	(602,917.12)	602,934.75	17.63
<b>Total Reporting Entity</b>	<b>\$ 1,792,586.59</b>	<b>\$ 5,793,451.79</b>	<b>\$ 6,043,869.95</b>	<b>\$ 1,542,168.43</b>	<b>\$ 647,563.03</b>	<b>\$ 2,189,731.46</b>

Composition of Cash:

Bank of Commerce - Operating .....	\$ 777,364.39
Bank of Commerce - Construction .....	102,928.66
Bank of Commerce - Checking.....	566,603.75
Bank of Commerce - Reserve .....	114,685.86
Bank of Commerce - Savings.....	389,051.38
Bank of Commerce - Certificate of Deposit.....	239,079.79
Security Bank of KC .....	17.63

Total Cash and Investments ..... \$ 2,189,731.46

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

## **PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23**

Notes to Financial Statement  
For the Year Ended December 31, 2017

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Public Wholesale Water Supply District No. 23, (the District) sells water to 20 customers in Montgomery, Neosho, Labette, Wilson, and Woodson counties. The District produces the water from the Fall River at a plant in Fredonia.

*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. 23 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.

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.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 Tax Status

Public Wholesale Water Supply District No. 23 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.

Accounting Estimates

The preparation of the financial statement 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 statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reimbursed Expenses

K.S.A. 79-2934 provides that reimbursed expenditures, 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 receipts when received by the District and are often difficult to identify the exact expenditure which they are reimbursing.

**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Compliance with Revenue Bond Covenants

The District is required, under the ordinances on Revenue Bond Issues, to maintain in its Enterprise Funds certain restricted accounts. The ordinances provide that the following reserve accounts be set up in amounts described below:

RESERVE ACCOUNTS	REQUIRED AMOUNT	ACTUAL AMOUNT
Principal and Interest Account for Water Revenue Bonds Series 2009A & 2009B – requires transfers Monthly of 2/12 of next maturing interest and 2/12 of next maturing principal.	\$ 112,003.94	\$ 340,668.90
Debt Service Reserve Account for Water Revenue Bonds Series 2017 & 2009B - requires \$5,842.25 Per month until \$675,401.30 is reached.	636,805.25	586,571.15
TOTAL RESERVES AT DECEMBER 31, 2017	\$ 748,809.10	\$ 927,240.05



**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY** (Continued)

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 violation with K.S.A. 10-1,113. The District has obligated expenditures in excess of available monies in the Water Utility Project Fund, however, K.S.A 10-1,116 provides that under certain situations, the funds can end the year with a negative unencumbered cash balance and therefore, exempt from the cash basis laws of the State of Kansas. This fund met the criteria under the statutes and therefore, is deemed not to be in violation of the Kansas cash basis.

The District agrees to fix, establish, maintain and collect such rates, fees or charges for Water Utility service which will be sufficient to enable the District to have, in each fiscal year, a net revenue in an amount that will be not less than 110% amount required to be paid by the District during that fiscal year on account of both principal and interest of all Water Utility System Bonds of the District at the time outstanding. Net revenue is defined as gross income less operating expenses, but before any transfers, depreciation and capital expense. For the year ended December 31, 2017, the District had net revenues available for debt service of \$1,059,200.08. The revenue bond ordinance requires net revenues available for debt service of \$739,226.00, which is 110% of the principal and interest requirements for 2018. Therefore, the District was in compliance with this covenant.

**3. DEPOSITS AND INVESTMENTS**

As of year-end, the District has the following investments:

<u>Investment Type</u>	<u>Cost</u>	<u>Rating</u>
Security Bank Kansas City – Federated Govt. Obligations	\$ 17.63	N/A

This investment is reflected at cost in these regulatory basis financial statements of the Public Wholesale Water Supply District No. 23.

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.

*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.

The District's allocation of investments as of December 31, 2017, is as follows:

<u>Investments</u>	<u>Percentage of Investments</u>
Federated Govt. Obligations	100%

### **3. DEPOSITS AND INVESTMENTS** (Continued)

*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 District, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2017; due to the receipt of bond and grant money there were times during the year when the district was not adequately secured.

At December 31, 2017, the District's carrying amount of deposits, including certificates of deposit was \$2,189,713.83 and the bank balance was \$1,801,035.58. The bank balance was held at one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000.00 was covered by federal depository insurance (FDIC) and the remaining \$1,551,035.58 was collateralized by pledged securities held under joint custody receipts by a third-party bank in the District's name.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments to be adequately secured.

### **4. CONCENTRATION OF RISK**

The District's customers are located in Montgomery, Neosho, Labette, Wilson, and Woodson counties. Risk of accounting loss exists from the possibility that numerous customers would no longer purchase water from the District. Impact of potential risk cannot be determined. Accounts receivable consists of unsecured receivable from the sales of water to customers of the District. The District is subject to the credit risk inherent in the rural water district business.

### **5. 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 employee; employees' health and life; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies.

### **6. 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 statement 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](http://www.kpers.org) or by writing to KPERs (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

## **6. DEFINED BENEFIT PENSION PLAN** (Continued)

*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 and 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 1% contribution rate through March 31, 2016 with a 0% moratorium until September 30, 2017 for the Death and Disability Program) and the statutory contribution rate was 8.46% for the fiscal year ended December 31, 2017. Contributions to the pension plan from the District were \$19,550.28 for the year ended December 31, 2017.

### Net Pension Liability

At December 31, 2017, The District's proportionate share of the collective net pension liability reported by KPERS was \$183,910.00. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. 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 this financial statement.

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](http://www.kpers.org) or can be obtained as described above.

**7. LONG-TERM DEBT**

Changes in long-term debt for the District for the year ended December 31, 2017, were as follows:

Issue	Interest Rates	Date of Issue	Original Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Temporary Bonds									
Series 2016 Revenue Bonds	2.17%	November 10, 2016	\$ 13,504,000.00	December 1, 2018	\$ 402,854.10	\$ 3,098,597.37	\$ -	\$ 3,501,451.47	\$ 48,761.02
Paid with Utility Receipts									
Series 2009-A	4.25%	October 22, 2009	9,273,106.00	December 1, 2049	8,720,043.00	-	(8,720,043.00)	-	296,481.49
Series 2009-B	3.375%	October 22, 2009	3,807,000.00	December 1, 2049	3,536,093.00	-	(59,926.00)	3,476,167.00	119,343.14
Series 2017	1.1%-4.125%	September 19, 2017	9,295,000.00	December 1, 2048	-	9,295,000.00	(430,000.00)	8,865,000.00	62,497.00
<b>Total Contractual Indebtedness</b>					<b>\$ 12,658,990.10</b>	<b>\$ 12,393,597.37</b>	<b>\$ (9,209,969.00)</b>	<b>\$ 15,842,618.47</b>	<b>\$ 527,082.65</b>

**7. LONG-TERM DEBT (Continued)**

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

	2018	2019	2020	2021	2022	2023 - 2027	2028 - 2032	2033 - 2037
Principal								
Temporary Bonds								
Series 2016	\$ 13,504,000.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Bonds								
Series 2009-B	61,948.00	64,039.00	65,891.00	68,424.00	70,733.00	390,815.00	461,171.00	544,749.00
Series 2017	185,000.00	185,000.00	190,000.00	190,000.00	195,000.00	1,035,000.00	1,185,000.00	1,425,000.00
Total Principal Payments	13,750,948.00	249,039.00	255,891.00	258,424.00	265,733.00	1,425,815.00	1,646,171.00	1,969,749.00
Interest								
Temporary Bonds								
Series 2016	293,567.04	-	-	-	-	-	-	-
Revenue Bonds								
Series 2009-B	117,320.64	115,229.89	113,378.35	110,844.75	108,535.44	505,832.56	435,173.28	351,594.43
Series 2017	307,755.00	305,442.50	302,945.00	300,095.00	296,865.00	1,420,582.50	1,268,330.00	1,038,875.00
Total Interest Payments	718,642.68	420,672.39	416,323.35	410,939.75	405,400.44	1,926,415.06	1,703,503.28	1,390,469.43
Total Principal and Interest	\$ 14,469,590.68	\$ 669,711.39	\$ 672,214.35	\$ 669,363.75	\$ 671,133.44	\$ 3,352,230.06	\$ 3,349,674.28	\$ 3,360,218.43
				Less Proceeds				
Principal				Not Drawn Down	Total			
Temporary Bonds								
Series 2016	\$ -	\$ -	\$ -	\$ (10,002,548.53)	\$ 3,501,451.47			
Revenue Bonds								
Series 2009-B	643,134.00	759,292.00	345,971.00	-	3,476,167.00			
Series 2017	1,715,000.00	2,090,000.00	470,000.00		8,865,000.00			
Total Principal Payments	2,358,134.00	2,849,292.00	815,971.00	(10,002,548.53)	15,842,618.47			
Interest								
Temporary Bonds								
Series 2016	-	-	-	-	293,567.04			
Revenue Bonds								
Series 2009-B	253,209.65	137,053.34	17,729.88	-	2,265,902.21			
Series 2017	739,200.00	362,381.28	19,387.50	-	6,361,858.78			
Total Interest Payments	992,409.65	499,434.62	37,117.38	-	8,921,328.03			
Total Principal and Interest	\$ 3,350,543.65	\$ 3,348,726.62	\$ 853,088.38	\$ (10,002,548.53)	\$ 24,763,946.50			

**8. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS**

All full-time employees of the District with one year of employment are eligible for vacation benefits of ten days per year, plus one day for each year of employment. The maximum vacation time earned per year is twenty days. In the event of termination, unused accrued vacation time is paid.

Sick leave accrues to all full-time employees at the rate of one day per month. Unused sick leave may be added carried over to the subsequent year, up to a maximum of twelve days. Employees who terminate by other than retirement or death will not be paid for accumulated sick leave.

The District determines a liability for compensated absences when the following conditions are met:

1. The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the District has estimated a liability for vacation pay in the amount of \$16,892.45. The District has not estimated a liability for sick pay, which has been earned, but not taken by District employees, inasmuch as the amount cannot be reasonably estimated at this time.

**9. INTERFUND TRANSFERS**

Operating transfers were as follows:

<u>From Fund:</u>	<u>To Fund:</u>	<u>Statutory Authority:</u>	<u>Amount:</u>
Water Utility	Water Utility Principal & Interest	K.S.A. 12-825d	\$671,766.14
Water Utility	Water Utility Bond Reserve	K.S.A. 12-825d	68,400.00
Water Utility	Water Utility Project Fund	K.S.A. 12-825d	14,400.74

**10. SUBSEQUENT EVENTS**

Public Wholesale Water Supply District No. 23 evaluated events and transactions occurring subsequent year end, and there were no subsequent events requiring recognition in the financial statement.

## **SUPPLEMENTARY INFORMATION**

**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23**

Fredonia, Kansas

Water Utility Fund

Schedule of Receipts and Expenditures - Actual

Regulatory Basis

For the Year Ended December 31, 2017

(With Comparative Actual Amounts for the Prior Year Ended December 31, 2016)

	Prior Year Actual	Current Year Actual
Receipts		
Charges for Services		
Water Sales	\$ 1,728,469.31	\$ 1,887,656.84
Use of Money and Property		
Interest on Idle Funds	11,401.48	12,963.31
Other Receipts		
Miscellaneous Income	34.88	19.63
Reimbursements	-	38,128.27
Total Receipts	<u>1,739,905.67</u>	<u>1,938,768.05</u>
Expenditures		
Operating Expenditures		
Personal Services		
Salaries	223,548.84	260,892.79
Employee Benefits	69,718.75	72,299.06
Contractual Services		
Mileage/Vehicle Expense	6,794.28	6,869.41
Contract Labor	28,268.97	39,078.76
Legal and Professional	25,998.00	30,739.79
Water Analysis	2,732.27	11,517.16
Utilities	150,025.14	153,199.81
Dues, Subscriptions, and Meetings	1,735.58	1,508.38
Insurance	40,310.00	42,526.00
Miscellaneous	2,566.58	48,044.43
Commodities		
Chemicals	186,347.15	180,313.24
Supplies	30,965.39	32,579.14
Capital Outlay		
Capital Outlay	17,974.00	22,036.10
Operating Transfers To:		
Water Utility Principal and Interest Fund	674,039.15	671,766.14
Water Utility Bond Reserve Fund	70,107.00	68,400.00
Water Utility Project Fund	148,136.12	14,400.74
Total Expenditures	<u>1,679,267.22</u>	<u>1,656,170.95</u>
Receipts Over (Under) Expenditures	60,638.45	282,597.10
Unencumbered Cash, Beginning	<u>759,966.35</u>	<u>820,604.80</u>
Unencumbered Cash, Ending	<u>\$ 820,604.80</u>	<u>\$ 1,103,201.90</u>



**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23**

Fredonia, Kansas

Water Utility Bond Reserve Fund

Schedule of Receipts and Expenditures - Actual

Regulatory Basis

For the Year Ended December 31, 2017

(With Comparative Actual Amounts for the Prior Year Ended December 31, 2016)

	Prior Year Actual	Current Year Actual
Receipts		
Use of Money and Property		
Interest Income	\$ 696.51	\$ 611.08
Operating Transfers From		
Water Utility Fund	70,107.00	68,400.00
Total Receipts	70,803.51	69,011.08
Expenditures		
Capital Improvements		
Capital Outlay	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	70,803.51	69,011.08
Unencumbered Cash, Beginning	446,756.56	517,560.07
Unencumbered Cash, Ending	\$ 517,560.07	\$ 586,571.15

**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23**

Fredonia, Kansas

Water Utility Replacement Reserve Fund

Schedule of Receipts and Expenditures - Actual

Regulatory Basis

For the Year Ended December 31, 2017

(With Comparative Actual Amounts for the Prior Year Ended December 31, 2016)

	Prior Year Actual	Current Year Actual
Receipts		
Use of Money and Property		
Interest Income	\$ 172.08	\$ 129.60
Total Receipts	172.08	129.60
Expenditures		
Capital Improvements		
Capital Outlay	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	172.08	129.60
Unencumbered Cash, Beginning	114,341.92	114,514.00
Unencumbered Cash, Ending	\$ 114,514.00	\$ 114,643.60

**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23**

Fredonia, Kansas

Water Utility Principal and Interest Fund

Schedule of Receipts and Expenditures - Actual

Regulatory Basis

For the Year Ended December 31, 2017

(With Comparative Actual Amounts for the Prior Year Ended December 31, 2016)

	Prior Year Actual	Current Year Actual
Receipts		
Use of Money and Property		
Interest Income	\$ 857.24	\$ 762.20
Operating Transfers From		
Water Utility Fund	674,039.15	671,766.14
Total Receipts	674,896.39	672,528.34
Expenditures		
Debt Service		
Interest	496,966.15	181,840.14
Principal	177,073.00	489,926.00
Total Expenditures	674,039.15	671,766.14
Receipts Over (Under) Expenditures	857.24	762.20
Unencumbered Cash, Beginning	339,049.46	339,906.70
Unencumbered Cash, Ending	\$ 339,906.70	\$ 340,668.90

**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23**

Fredonia, Kansas

Water Utility Project Fund

Schedule of Receipts and Expenditures - Actual

Regulatory Basis

For the Year Ended December 31, 2017

(With Comparative Actual Amounts for the Prior Year Ended December 31, 2016)

	Prior Year Actual	Current Year Actual
Receipts		
Use of Money and Property		
Temporary Note Proceeds	\$ 402,854.10	\$ 3,098,597.37
Interest Income	1.02	16.61
Operating Transfers From Water Utility Fund	148,136.12	14,400.74
Total Receipts	550,991.24	3,113,014.72
Expenditures		
Capital Improvements		
Capital Outlay	550,990.22	3,715,932.86
Total Expenditures	550,990.22	3,715,932.86
Receipts Over (Under) Expenditures	1.02	(602,918.14)
Unencumbered Cash, Beginning	-	1.02
Unencumbered Cash, Ending	\$ 1.02	\$ (602,917.12)

**PUBLIC WHOLESale WATER SUPPLY DISTRICT #23**  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended December 31, 2017

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL CFDA NUMBER	CASH RECEIPTS	DISBURSE- MENTS/ EXPENDITURES
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
Direct Programs:				
Water and Waste Disposal Systems for Rural Communities: Loan	N/A	10.760	\$ 3,701,532.00	\$ 3,701,532.00
		Total 10.760 (M)	3,701,532.00	3,701,532.00
Total U.S. Department of Agriculture			3,701,532.00	3,701,532.00
<b>TOTAL ALL PROGRAMS</b>			<b>\$ 3,701,532.00</b>	<b>\$ 3,701,532.00</b>

(M) - Major Program

**NOTE A -- BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal loan activity of the Public Wholesale Water Supply District #23 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statement.

**NOTE B -- INDIRECT COSTS**

The Public Wholesale Water Supply District #23 did not elect to use the 10% de minimis cost rate.

**NOTE C -- FEDERAL LOAN PROGRAMS**

The federal loan programs listed subsequently are administered directly by Public Wholesale Water Supply District #23 and transactions relating to the programs are included in the Public Wholesale Water Supply District #23's financial statement. Only expenditures for 2017 are included in the Schedule of Expenditures of Federal Awards.

<u>Program Name</u>	CFDA Number	Outstanding Balance at 12/31/17
Water and Waste Disposal Systems for Rural Communities	10.760	\$3,501,451.47

**JARRED, GILMORE & PHILLIPS, PA**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

Board of Directors  
Public Wholesale Water Supply District No. 23  
Fredonia, Kansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of Public Wholesale Water Supply District No. 23, as of and for the year ended December 31, 2017, and the related notes to the financial statement, which collectively comprise Public Wholesale Water Supply District No. 23's basic financial statement and have issued our report thereon dated September 4, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statement, we considered Public Wholesale Water Supply District No. 23's internal control over financial reporting (internal control) to determine the 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 Public Wholesale Water Supply District No. 23's internal control. Accordingly, we do not express an opinion on the effectiveness of Public Wholesale Water Supply District No. 23's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. 2017-001.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Public Wholesale Water Supply District No. 23's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Public Wholesale Water Supply District No. 23's Response to Findings**

Public Wholesale Water Supply District No. 23's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Public Wholesale Water Supply District No. 23's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

September 4, 2018  
Chanute, Kansas

**JARRED, GILMORE & PHILLIPS, PA**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE**

Honorable Mayor and District Council  
Public Wholesale Water Supply District No. 23, Kansas

**Report on Compliance for Each Major Federal Program**

We have audited the Public Wholesale Water Supply District #23's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Public Wholesale Water Supply District No. 23's major federal programs for the year ended December 31, 2017. Public Wholesale Water Supply District No. 23's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Public Wholesale Water Supply District No. 23's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Public Wholesale Water Supply District No. 23's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Public Wholesale Water Supply District No. 23's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Public Wholesale Water Supply District No. 23, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

**Report on Internal Control over Compliance**

Management of the Public Wholesale Water Supply District No. 23, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Public Wholesale Water Supply District No. 23's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Public Wholesale Water Supply District No. 23's internal control over compliance.



*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



JARRED, GILMORE & PHILLIPS, PA  
Certified Public Accountants

Chanute, Kansas  
September 4, 2018

**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23**

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2017

**I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statement:**

The auditors' report expresses a modified opinion in accordance with generally accepted accounting principles, on the financial statement of Public Wholesale Water Supply District No. 23 and an unmodified opinion on the regulatory basis of accounting.

**Internal Control over Financial Reporting:**

Material weakness(es) identified?	<u>  X  </u>	Yes	<u>      </u>	No
Significant deficiencies identified?	<u>      </u>	Yes	<u>  X  </u>	None Reported
Non compliance or other matters required to be reported under <i>Government Auditing Standards</i>	<u>      </u>	Yes	<u>  X  </u>	No

**Federal Awards:**

Internal control over major programs:				
Material weakness(es) identified?	<u>      </u>	Yes	<u>  X  </u>	No
Significant deficiencies identified?	<u>      </u>	Yes	<u>  X  </u>	None Reported

The auditors' report on compliance for the major federal award programs for Public Wholesale Water Supply District No. 23 expresses an unmodified opinion.

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?        Yes   X   No

Identification of major programs:

**U.S. DEPARTMENT OF AGRICULTURE**

Water & Waste Disposal Systems for Rural Communities – CFDA No. 10.760

The threshold for distinguishing Types A and B programs was \$750,000.00.

Auditee qualified as a low risk auditee?        Yes   X   No

**II. FINDINGS – FINANCIAL STATEMENT AUDIT**

**Finding 2017-001 – Segregation of Duties**

*Criteria:*

Internal controls should be designed to safeguard assets and help or detect losses from employee dishonesty or error.

*Condition:*

Due to the small staff size of the District, weakness in internal control results from the District personnel performing billings, receipting cash, making deposits, reconciling the bank accounts, and having access to all books and records of the District.

*Context:*

It is, at present, allowable for overlapping duties to be performed by the same individual.

*Effect:*

The deficiencies in the design and operation of the internal controls in this area could allow for the misappropriation of funds to go undetected in a timely manner.

*Cause:*

Limited funding and staffing does not allow for the proper segregation of duties.

*Recommendation:*

We remind the District staff responsible for approval and the signing of any financial information to be diligent in your responsibilities. All financial activity approved should be thoroughly reviewed before approval.

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

NONE

**PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23**

Summary Schedule of Prior Audit Findings  
For the Year Ended December 31, 2017

---

---

December 31, 2016:

**Finding 2016-001** – Segregation of Duties

Recommendation:

We recommend segregating the duties of collecting cash receipts, purchasing, and check Preparation. We also recommend an increased involvement by the Board of Directors in oversight and monitoring.

*Status:*

Repeat finding, see 2017-001

# Corrective Action Plan

September 4, 2018

Cognizant or Oversight Agency for Audit

Public Wholesale Water Supply District No. 23 respectfully submits the following corrective action plan for the year ended December 31, 2017.

Name and address of independent public accounting firm: Jarred, Gilmore & Phillips, PA, P.O. Box 779, 1815 S Santa Fe, Chanute, Kansas 66720.

Audit period: Year ended December 31, 2017.

The findings from the September 4, 2018 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule of findings and questioned costs.

**Finding 2017-001** – Segregation of Duties

*Recommendation:*

We recommend segregating the duties of collecting cash receipts, purchasing, and check preparation, which may require hiring additional accounting staff. We also recommend an increased involvement by the Board of Directors in oversight and monitoring.

*Project's response:*

The District is aware of the limited segregation of duties and will continue to look for opportunities to mitigate the risk by having others within the entity monitor staff's activities. Staffing is limited and the District has evaluated the cost/benefit of hiring additional staff, which is not practical at this time.

If the Oversight Agency for Audit has questions regarding this plan, please call Jack Hughes, Treasurer at (620) 421-6527.

Sincerely,

*PWWSD #23*

Public Wholesale Water Supply District No. 23