

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
JACKSON COUNTY, KANSAS

FINANCIAL STATEMENTS
WITH
SUPPLEMENTAL INFORMATION
DECEMBER 31, 2018 and 2017
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18

**FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017**

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Independent Auditor's Report

To the Board of Directors
Public Wholesale Water Supply District No. 18
Jackson County, Kansas

We have audited the accompanying financial statements of Public Wholesale Water Supply District No. 18, Jackson County, Kansas as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide* (KMAAG). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Wholesale Water Supply District No. 18, Jackson County, Kansas, as of December 31, 2018 and 2017, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

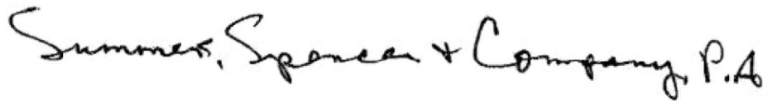
Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Public Wholesale Water Supply District No. 18, Jackson County, Kansas' basic financial statements. The supplemental information on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 it.

A handwritten signature in cursive script that reads "Summers, Spencer & Company, P.A.".

Summers, Spencer & Company, P.A.
Topeka, Kansas

February 19, 2019

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
STATEMENTS OF NET POSITION

December 31,	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 700,014	\$ 1,208,033
Unbilled receivables	86,162	85,378
Prepaid insurance	8,801	8,801
<i>Total current assets</i>	<u>794,977</u>	<u>1,302,212</u>
Noncurrent assets		
Restricted cash and cash equivalents	598,182	725,075
Capital assets, net	4,620,868	4,859,719
Intangible assets, net	54,326	56,654
<i>Total noncurrent assets</i>	<u>5,273,376</u>	<u>5,641,448</u>
<i>Total assets</i>	<u>\$ 6,068,353</u>	<u>\$ 6,943,660</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Bonds payable - current portion	\$ 219,983	\$ 129,739
Accounts payable	15,892	8,896
Accrued interest	136,650	208,503
<i>Total current liabilities</i>	<u>372,525</u>	<u>347,138</u>
Noncurrent liabilities		
Bonds payable - noncurrent portion	5,390,897	6,371,380
<i>Total noncurrent liabilities</i>	<u>5,390,897</u>	<u>6,371,380</u>
<i>Total liabilities</i>	<u>5,763,422</u>	<u>6,718,518</u>
Net position		
Invested in capital assets, net of related debt	(990,012)	(1,641,400)
Restricted capital assets	598,182	725,075
Unrestricted	696,761	1,141,467
<i>Total net position</i>	<u>304,931</u>	<u>225,142</u>
<i>Total liabilities and net position</i>	<u>\$ 6,068,353</u>	<u>\$ 6,943,660</u>

The accompanying notes are an integral part of the financial statements.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the years ended December 31,	2018	2017
Revenue		
Water sales	\$ 1,064,772	\$ 999,841
<i>Total revenue</i>	<u>1,064,772</u>	<u>999,841</u>
Expenses		
Depreciation	238,851	239,127
Amortization of initial facility costs	2,328	2,328
Administration	153,996	121,201
Professional fees	5,277	9,524
Insurance	19,963	17,676
Maintenance and repair	51,802	260,903
Chemicals	96,797	79,872
Supplies	2,017	3,388
Telephone	4,350	3,901
Utilities	91,910	97,585
Miscellaneous	6,148	7,945
<i>Total expenses</i>	<u>673,439</u>	<u>843,450</u>
<i>Operating income</i>	<u>391,333</u>	<u>156,391</u>
Other income (expenses)		
Interest expense	(236,397)	(251,188)
Interest income	1,983	2,725
Bond issuance costs	(77,130)	
Other income	-	245
<i>Total other income (expense)</i>	<u>(311,544)</u>	<u>(248,218)</u>
Change in net position	79,789	(91,827)
Net position, beginning of year	<u>225,142</u>	<u>316,969</u>
Net position, end of year	<u><u>\$ 304,931</u></u>	<u><u>\$ 225,142</u></u>

The accompanying notes are an integral part of the financial statements.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18

STATEMENTS OF CASH FLOWS

For the years ended December 31,	2018	2017
Cash flows from operating activities		
Receipts from customers	\$ 1,063,988	\$ 995,134
Payments to suppliers	<u>(497,117)</u>	<u>(606,886)</u>
<i>Net cash provided by operating activities</i>	<u>566,871</u>	<u>388,248</u>
Cash flows from investing activities		
Interest	<u>1,983</u>	<u>2,725</u>
<i>Net cash provided by investing activities</i>	<u>1,983</u>	<u>2,725</u>
Cash flows from capital and related financing activities		
Principal paid on long term capital debt	(890,239)	(124,625)
Interest paid on long term capital debt	(236,397)	(251,188)
Other	<u>(77,130)</u>	<u>245</u>
<i>Net cash used for capital and related financing activities</i>	<u>(1,203,766)</u>	<u>(375,568)</u>
Net increase (decrease) in cash and cash equivalents	(634,912)	15,405
Cash and cash equivalents, beginning of year	<u>1,933,108</u>	<u>1,917,703</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,298,196</u></u>	<u><u>\$ 1,933,108</u></u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 391,333	\$ 156,391
Adjustments to reconcile operating income to:		
net cash provided by operating activities:		
Depreciation	238,851	239,127
Amortization of initial facility costs	2,328	2,328
<i>(Increase) decrease in operating assets:</i>		
Accounts receivable	(784)	(4,707)
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable	6,996	(1,155)
Accrued expenses	<u>(71,853)</u>	<u>(3,736)</u>
<i>Net cash provided by operating activities</i>	<u><u>\$ 566,871</u></u>	<u><u>\$ 388,248</u></u>

The accompanying notes are an integral part of the financial statements.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Nature of organization

Organization and nature of operations

Public Wholesale Water Supply District No. 18 (the District) was organized under Kansas law and is a joint venture of the City of Holton, Jackson County, Kansas, and Rural Water District No. 3, Jackson County, Kansas. The District was organized as a public wholesale water supply district pursuant to K.S.A. 19-3545 et seq. The District is not included in any other governmental “reporting entity” as defined in GASB Pronouncements.

Note 2 - Summary of significant accounting policies

Basis of accounting

The District is a governmental organization operated as a business (proprietary) type entity. The District’s financial information is accounted for using the economic resources measurement focus and the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cash and cash equivalents

The District considers all investments with original maturities of three months or less to be cash equivalents.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital assets

Capital assets are recorded at cost. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Office equipment	5 - 10 years
Plant and equipment	5 - 40 years

The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Revenue recognition

Operating revenues consist of those revenues that result from the ongoing principal operations of the District and are recognized when earned.

Accounts receivable

Accounts receivable arise from the sale of water and are stated at the unpaid balance. There is no interest charged on unpaid balances. The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. In the event accounts become uncollectible, they are charged to operations at the time that determination is made.

Income taxes

The District is a tax-exempt governmental entity and is not subject to income taxes at either the federal or State level.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18

NOTES TO THE FINANCIAL STATEMENTS

Intangible assets

Intangible assets consist of certain costs associated with the construction of the initial production facility. These costs have been capitalized and are being amortized on a straight line basis over the term of the debt. These costs consisted of the following as of December 31, 2018 and 2017:

	Original Amount	Less: Accumulated Amortization	Balance at December 31, 2018
Initial facility costs	\$ 93,130	\$ (38,804)	\$ 54,326
	<u>\$ 93,130</u>	<u>\$ (38,804)</u>	<u>\$ 54,326</u>

	Original Amount	Less: Accumulated Amortization	Balance at December 31, 2017
Initial facility costs	\$ 93,130	\$ (36,476)	\$ 56,654
	<u>\$ 93,130</u>	<u>\$ (36,476)</u>	<u>\$ 56,654</u>

Note 3 – Capital assets

Capital assets, together with activity for the years ended December 31, 2018 and 2017 consisted of the following:

	<u>December 31, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2018</u>
Capital Assets				
Land	\$ 68,396	\$ -	\$ -	\$ 68,396
Office equipment	35,113	-	-	35,113
Plant and equipment	<u>8,244,715</u>	<u>-</u>	<u>-</u>	<u>8,244,715</u>
	8,348,224	-	-	8,348,224
Less: Accumulated depreciation for:				
Office equipment	35,113	-	-	35,113
Plant and equipment	<u>3,453,392</u>	<u>238,851</u>	<u>-</u>	<u>3,692,243</u>
	<u>\$ 4,859,719</u>	<u>\$ 238,851</u>	<u>\$ -</u>	<u>\$ 4,620,868</u>
	<u>December 31, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2017</u>
Capital Assets				
Land	\$ 68,396	\$ -	\$ -	\$ 68,396
Office equipment	35,113	-	-	35,113
Plant and equipment	<u>8,244,715</u>	<u>-</u>	<u>-</u>	<u>8,244,715</u>
	8,348,224	-	-	8,348,224
Less: Accumulated depreciation for:				
Office equipment	35,113	-	-	35,113
Plant and equipment	<u>3,214,265</u>	<u>239,127</u>	<u>-</u>	<u>3,453,392</u>
	<u>\$ 5,098,846</u>	<u>\$ 239,127</u>	<u>\$ -</u>	<u>\$ 4,859,719</u>

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18

NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense was \$238,851 and \$239,127 for the years ended December 31, 2018 and 2017.

Note 4 – Long-term debt

Long-term debt consists of Water System Revenue Bonds issued to the United States Department of Agriculture Office of Land Development in the amount of \$10,701,700 with a range of maturity dates of 2005 to 2053, with interest rates of 2.5%, 4.75% and 3.32%, payable annually from utility revenues and secured by these revenues. Series 2018, as noted below, was issued as a refunding bond to take advantage of a lower interest rate and refund Series 2002-A.

The following is a detailed listing of the District's long-term debt:

<u>Debt Issue</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>
Revenue Bonds:			
Series 2002-A	2/11/2002	\$ 4,778,000	4.75%
Series 2013	3/29/2013	2,793,000	2.50%
Series 2018	3/29/2018	3,130,700	3.32%

The following is a summary of changes in long-term debt for the years ended December 31, 2018 and 2017:

	<u>Beginning Princial Outstanding</u>	<u>Additions to Principal</u>	<u>Reductions of Principal</u>	<u>Ending Principal Outstanding</u>
December 31, 2018				
Revenue Bonds:				
Series 2002-A	\$ 3,888,000	\$ -	\$ 3,888,000	\$ -
Series 2013	2,613,119	-	45,739	2,567,380
Series 2018	-	3,130,700	87,200	3,043,500
	<u>\$ 6,501,119</u>	<u>\$ 3,130,700</u>	<u>\$ 4,020,939</u>	<u>\$ 5,610,880</u>
December 31, 2017				
Revenue Bonds:				
Series 2002-A	\$ 3,968,000	\$ -	\$ 80,000	\$ 3,888,000
Series 2013	2,657,744	-	44,625	2,613,119
	<u>\$ 6,625,744</u>	<u>\$ -</u>	<u>\$ 124,625</u>	<u>\$ 6,501,119</u>

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18

NOTES TO THE FINANCIAL STATEMENTS

The annual debt service requirements to maturity for bonded debt as of December 31, 2018 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Revenue Bonds, Series 2013</u>		<u>Revenue Bonds, Series 2018</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 46,883	\$ 64,380	\$ 173,100	\$ 99,600
2020	48,055	63,208	175,300	93,868
2021	49,256	62,006	180,700	88,002
2022	50,488	60,775	186,700	81,956
2023	51,750	59,513	193,100	75,706
2024 - 2028	278,815	277,498	1,068,600	276,979
2029 - 2033	315,453	240,860	1,066,000	87,250
2034 - 2038	356,906	199,407	-	-
2039 - 2044	403,807	152,506	-	-
2045 - 2048	456,870	99,443	-	-
2049 - 2053	509,097	39,406	-	-
	<u>\$ 2,567,380</u>	<u>\$ 1,319,002</u>	<u>\$ 3,043,500</u>	<u>\$ 803,361</u>

The District has certain loan covenants within the bond resolution requiring total revenue available for debt service, as defined in the bond agreement, of at least 125% of debt requirements. This amount was 124% for the year ended December 31, 2018. For the year ended December 31, 2016, this amount was 105%. The District last approved a rate increase effective March 2010.

Interest expense on long-term debt totaled \$236,397 and \$251,188 for the years ended December 31, 2018 and 2017.

Note 5 – Deposits

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 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.

At December 31, 2018, the carrying amount of the District's deposits, was \$1,298,196 and the bank balance was \$1,304,937, of which \$250,000 was covered by federal deposit insurance and the balance by pledged securities with a market value of approximately \$1,834,752 held by a third party.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18

NOTES TO THE FINANCIAL STATEMENTS

Note 6 – Restricted assets

Restricted assets at December 31, 2018 and 2017 consisted of the following:

	December 31, 2018
Bond principal and interest	\$ 205,902
Bond reserve account	392,280
	<u>\$ 598,182</u>

	December 31, 2017
Bond principal and interest	\$ 332,795
Bond reserve account	392,280
	<u>\$ 725,075</u>

Note 7 – Operating contract

The District has entered into a contract with the City of Holton to provide the day-to-day operation and maintenance of the water treatment facility, including accounting and record keeping services. Dated October 18, 2017, the contract in the amount of \$ 147,000 per year is for a term of five years. The previous contract was dated August 6, 2012 and was for \$120,000 per year.

Note 8 – Water purchase contracts

The District has entered into contracts with the City of Holton and Rural Water District No. 3, Jackson County, Kansas, in which the two parties each agree to purchase no less than 8,146,000 gallons of water per month at 1.54 cents per thousand gallons and to pay a base rate of \$25,000 per month.

Note 9 – Subsequent events

Management has evaluated subsequent events through February 19, 2019, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18

INSURANCE COVERAGE

The District's insurance policy is provided by EMC and Kellerman Insurance, Inc., with a premium of \$26,021 and covers the period May 1, 2018 to May 1, 2019. It provides the following coverage:

Building (90% coinsurance)	\$	8,551,460
Personal property (90% coinsurance)		229,500
Storage tanks (90% coinsurance)		750,006
Equipment (80% coinsurance)		76,014
General liability	1,000,000/2,000,000	
Linebacker	500,000/1,000,000	
Employee theft		381,000

The District's insurance policy is provided by EMC and Kellerman Insurance, Inc., with a premium of \$25,419 and covers the period May 1, 2017 to May 1, 2018. It provides the following coverage:

Building (90% coinsurance)	\$	8,428,776
Personal property (90% coinsurance)		229,500
Storage tanks (90% coinsurance)		750,006
Equipment (80% coinsurance)		76,014
General liability	1,000,000/2,000,000	
Linebacker	500,000/1,000,000	
Employee theft		381,000

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
CUSTOMERS SERVED
DECEMBER 31, 2018 and 2017

For the year ended December 31, 2018	Beginning of Year	Changes	End of Year
City of Holton, Kansas (average)	1,549	(5)	1,544
Rural Water District No. 3	<u>1,893</u>	<u>(1)</u>	<u>1,892</u>
<i>Total</i>	<u><u>3,442</u></u>	<u><u>(6)</u></u>	<u><u>3,436</u></u>
For the year ended December 31, 2017	Beginning of Year	Changes	End of Year
City of Holton, Kansas (average)	1,554	(5)	1,549
Rural Water District No. 3	<u>1,886</u>	<u>7</u>	<u>1,893</u>
<i>Total</i>	<u><u>3,440</u></u>	<u><u>2</u></u>	<u><u>3,442</u></u>