

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, Kansas

Year Ended December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Public Wholesale Water Supply District No. 18, Jackson County, Kansas, as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

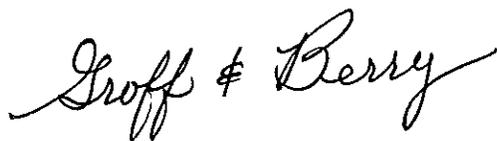
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Public Wholesale Water Supply District No. 18, Jackson County, Kansas, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 12 through 13 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Topeka, Kansas
January 24, 2013

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, Kansas

STATEMENT OF NET POSITION
December 31, 2012

ASSETS

Current assets:		
Cash and cash equivalents	\$ 400,663	
Accounts receivable	81,984	
Prepaid insurance	<u>6,947</u>	
Total current assets		\$ 489,594
Noncurrent assets:		
Restricted capital assets:		
Cash and cash equivalents		511,774
Capital assets:		
Property, plant and equipment	8,568,562	
Less: accumulated depreciation	<u>3,010,036</u>	5,558,526
Other assets:		
Loan costs	46,051	
Organization costs	93,130	
Less: amortization	<u>(37,115)</u>	
Restricted cash from construction bonds	102,066	
	<u>2,140,502</u>	<u>2,242,568</u>
Total assets		\$ <u>8,802,462</u>

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

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, Kansas

STATEMENT OF NET POSITION
December 31, 2012

LIABILITIES AND NET ASSETS

Current liabilities:		
Revenue bonds issued for construction	\$ 2,500,000	
Bonds payable	86,000	
Accounts payable	17,620	
Accrued interest:		
Interest	<u>214,919</u>	
Total current liabilities		\$ 2,818,539
Noncurrent liabilities:		
Bonds payable		5,356,000
Net assets:		
Invested in capital assets, net of related debt	(242,972)	
Restricted for debt service	511,774	
Unrestricted	<u>359,121</u>	
Total net assets		<u>627,923</u>
Total liabilities and net assets		<u>\$ 8,802,462</u>

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

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, Kansas

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
Year Ended December 31, 2012

Operating revenues:		
Water sales		\$ <u>1,031,277</u>
Total operating revenues		\$ 1,031,277
Operating expenses:		
Depreciation	316,527	
Amortization	3,480	
Administration	120,000	
Professional fees	14,366	
Insurance	17,211	
Maintenance and repair	33,014	
Chemicals	179,802	
Supplies	2,535	
Telephone	3,308	
Utilities	119,584	
Miscellaneous	<u>5,664</u>	
Total operating expenses		<u>815,491</u>
Operating income		215,786
Nonoperating revenue (expense):		
Interest expense	(258,170)	
Interest income	<u>1,902</u>	<u>(256,268)</u>
Changes in net assets		(40,482)
Net assets, beginning of year		<u>668,405</u>
Net assets, end of year		\$ <u><u>627,923</u></u>

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

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, Kansas

STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

Cash flows from operating activities:		
Receipts from customers	\$ 1,026,653	
Payments to suppliers	<u>494,729</u>	
Net cash provided by operating activities		\$ 531,924
Cash flows from capital and related financing activities:		
Principal paid on capital debt	(82,000)	
Interest paid on capital debt	(262,410)	
Purchase of property and equipment	(359,498)	
Proceeds from bonds issued for construction	<u>2,500,000</u>	
Net cash provided by capital and related financing activities		1,796,092
Cash flows from investing activities:		
Interest	<u>1,902</u>	
Net cash provided by investing activities		<u>1,902</u>
Net increase in cash and cash equivalents		2,329,918
Cash, beginning of year		<u>723,021</u>
Cash, end of year		<u>\$ 3,052,939</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income		\$ 215,786
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		320,007
Change in assets and liabilities:		
Receivables and prepaids		(5,152)
Payables		<u>1,283</u>
Cash provided by operating activities		<u>\$ 531,924</u>

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

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, Kansas

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies

Entity and Basis of Accounting

The District was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District is a joint venture of the City of Holton, Jackson County, Kansas, and Rural Water District No. 3, Jackson County, Kansas, which 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all savings and checking accounts are considered to be cash equivalents.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Capitalized Interest

The District follows the policy of capitalizing interest as a component of the cost of property, plant and equipment.

Income Taxes

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

Estimates

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

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	December 31, 2011	Additions	December 31, 2012
Land	\$ 68,396	\$ -	\$ 68,396
Office equipment	35,113	-	35,113
Plant and equipment	8,105,555	-	8,105,555
Construction in process	-	359,498	359,498
	\$ 8,209,064	\$ 359,498	\$ 8,568,562

Depreciation expense was \$ 316,527 for 2012.

3 - 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 \$ 6,112,000 with a range of maturity dates of 2005 to 2042, with an interest rate of 4.75%, payable annually from utility revenues and secured by these revenues.

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	02-11-02	\$ 4,778,000	4.75%
Series 2002-B	02-11-02	1,334,000	4.75%
Series 2012	09-26-12	2,500,000	1.85%

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - Long-Term Debt (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2012:

<u>Debt Issue</u>	<u>Beginning Principal Outstanding</u>	<u>Additions to Principal</u>	<u>Reductions of Principal</u>	<u>Ending Principal Outstanding</u>
Revenue bonds:				
Series 2002-A	\$ 4,319,000	\$ -	\$ 64,000	\$ 4,255,000
Series 2002-B	1,205,000	-	18,000	1,187,000
Series 2012	<u>-</u>	<u>2,500,000</u>	<u>-</u>	<u>2,500,000</u>
	<u>\$ 5,524,000</u>	<u>\$ 2,500,000</u>	<u>\$ 82,000</u>	<u>\$ 7,942,000</u>

The annual debt service requirements to maturity for bonded debt as of December 31, 2012 are as follows:

<u>Year Ending December 31,</u>	<u>Revenue Bonds, Series 2002-A</u>		<u>Revenue Bonds, Series 2002-B</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 67,000	\$ 201,650	\$ 19,000	\$ 56,253
2014	70,000	198,930	20,000	55,480
2015	73,000	195,605	20,000	54,530
2016	77,000	192,578	21,000	53,703
2017	80,000	188,048	22,000	52,462
2018 - 2022	462,000	881,562	129,000	246,005
2023 - 2027	584,000	760,820	163,000	212,281
2028 - 2032	736,000	608,546	205,000	169,885
2033 - 2037	931,000	415,702	261,000	115,842
2038 - 2042	<u>1,175,000</u>	<u>172,593</u>	<u>327,000</u>	<u>48,030</u>
	<u>\$ 4,255,000</u>	<u>\$ 3,816,034</u>	<u>\$ 1,187,000</u>	<u>\$ 1,064,471</u>

The Series 2012 matures September 26, 2013.

The District has certain loan covenants within the bond resolution requiring a net operating income of 125% of debt requirements. At December 31, 2012, the District's net operating income was at approximately 1.54%. The District last approved a rate increase effective March 1, 2010.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - Long-Term Debt (Continued)

The District issued a Water System Revenue Bond, Series 2012 in the amount of \$ 2,500,000, maturing in one year, to finance construction of a new filter system at the plant. The District has a commitment to issue permanent financing once construction is completed and will include the refinancing of the Revenue Bonds, Series 2002-B. At December 31, 2012, the District had expended \$359,498 of the proceeds of the construction.

4 - Deposits

Kansas State Statutes authorize the District, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements and U.S. Treasury bills and notes. Statutes also require that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the District.

At December 31, 2012, the carrying amount of the District's deposits, including certificates of deposit, was \$ 3,052,938 and the bank balance was \$ 3,066,523, of which \$ 250,000 was covered by federal deposit insurance and the balance by pledged security with a market value of approximately \$ 3,114,900 held by a counter party but not in the District's name.

5 - Restricted Assets

Restricted assets at December 31, 2012 consisted of:

Bond principal and interest	\$ 286,411
Bond reserve account	<u>225,363</u>
	<u>\$ 511,774</u>

6 - 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 August 6, 2012, the contract in the amount of \$ 120,000 per year is for a term of five years.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - Water Purchase Contract

The District has entered into a contract 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.

8 - Commitments and Contingencies

The District participated in a federal grant program which is governed by various rules and regulations of the grantor agency. Costs charged to the grant program are subject to audit and adjustment by the grantor agency; therefore, to the extent the District has not complied with the rules and regulations governing the grants, refunds of money received may be required. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grant; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

9 - Subsequent Events

Management has reviewed subsequent events through January 24, 2013.

SUPPLEMENTARY INFORMATION

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR
THE YEAR ENDED DECEMBER 31, 2012

The discussion and analysis of Public Wholesale Water Supply District No. 18's financial performance provides an overview of the District's financial activities for the year ended December 31, 2012. Please review it in conjunction with the District's basic financial statements.

FINANCIAL HIGHLIGHTS

Total net assets decreased by \$ 40,482 to \$ 627,923, which includes noncash expenditures for depreciation and amortization of \$ 320,006.

Cash flows of the District from operations positively increased cash in the amount of \$ 189,416 during the year. In addition, cash restricted from temporary notes increased \$ 2,140,501.

Water sales increased \$ 53,521 to \$ 1,031,277 as usage remained approximately the same as the prior year and operating expense decreased \$ 8,862 to \$ 815,491.

Revenue Bonds for construction were issued for plant improvements in the amount of \$ 2,500,000. During the current year, expenditures were made of \$ 359,498. It is anticipated upon completion of the construction that the construction bonds will be retired and the Series 2002-B bonds will be refinanced.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position provide information about the activities of the District as a whole and present a longer-term view of the District's finances.

The Statements report information about the District and about its activities to provide information about the financial position and the changes during the year. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private-sector companies.

Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements report the District's net assets, changes in net assets and the cash flow to provide a measurement of the District's financial health or position. You will need to consider other financial and non-financial factors, however, such as changes in the District's area and economy to assess the overall health of the District.

The Notes to Financial Statements provides additional information that is essential to a full understanding of the data provided in the financial statements.

REQUEST FOR INFORMATION

This financial report is designed to provide an overview of the District's finances. Questions concerning any information should be addressed to the District at 430 Pennsylvania Avenue, Holton, Kansas 66436.



Kerwin McKee
General Manager

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, KansasINSURANCE COVERAGE
December 31, 2012

The District insurance policy is provided by Willis HRH, with a premium of \$ 20,742 and covers the period May 1, 2012 to May 1, 2013. It provides the following coverage:

Building (90% coinsurance)	\$	4,350,778
Personal property (90% coinsurance)		2,450,448
Storage tanks		463,670
General liability		1/1,000,000
Linebacker	500,000/1,000,000	
Employee theft		400,000
Equipment		38,250

See accompanying independent auditor's report.

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 18
Jackson County, KansasCUSTOMERS SERVED
December 31, 2012

	<u>Beginning of Year</u>	<u>Changes</u>	<u>End of Year</u>
City of Holton, Kansas (average)	1,538	(8)	1,530
Rural Water District No. 3	<u>1,776</u>	<u>43</u>	<u>1,819</u>
Total	<u>3,314</u>	<u>35</u>	<u>3,349</u>

See accompanying independent auditor's report.