

**PUBLIC WHOLESALE WATER
SUPPLY DISTRICT NO. 8**

Financial Statement and
Independent Auditors' Report with
Supplemental Information

For the Year Ended
December 31, 2012

**PUBLIC WHOLESALE WATER SUPPLY
DISTRICT NO. 8**

El Dorado, Kansas

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JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Public Wholesale Water Supply District No. 8
El Dorado, 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. 8, El Dorado, Kansas, a municipality, as of and for the year ended December 31, 2012, 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 2 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Kansas Municipal Audit and Accounting Guide. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

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

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

As described in Note 2 of the financial statement, the financial statement is prepared by Public Wholesale Water Supply District No. 8, El Dorado, Kansas to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 2 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. 8, El Dorado, Kansas as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Public Wholesale Water Supply District No. 8, El Dorado, Kansas as of December 31, 2012, 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 2.

Report on Regulatory Required 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 and budget (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 insurance coverage (Schedule 2 as listed in the table of contents), is presented for analysis and are 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 2.

Jarred, Gilmore & Phillips, PA

JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

March 4, 2013
Chanute, Kansas

Statement 1

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 8

El Dorado, Kansas

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

For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash December 31, 2012
Business Funds:						
Water Utility	\$ 276,446.00	\$ 212,966.71	\$ 205,362.98	\$ 284,049.73	\$ 17,636.92	\$ 301,686.65
Total Reporting Entity	\$ 276,446.00	\$ 212,966.71	\$ 205,362.98	\$ 284,049.73	\$ 17,636.92	\$ 301,686.65
Composition of Cash:						
Community National Bank						\$ 4,989.13
Checking Account.....						127,483.28
Savings.....						169,214.24
Certificates of Deposit.....						
Total Cash.....						\$ 301,686.65

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

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 8
El Dorado, Kansas

Notes to Financial Statement
For the Year Ended December 31, 2012

1. NATURE OF ORGANIZATION

Organization and Purpose

Public Wholesale Water Supply District No. 8 was organized under Kansas law and provides water to rural Butler County in Kansas.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Public Wholesale Water Supply District No. 8, El Dorado, Kansas, is a municipal corporation governed by an appointed board, representing each of the participating agencies.

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. 8, El Dorado, Kansas for the year of 2012:

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.)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The 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 municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting..

Property and Equipment

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

Income Taxes

Public Wholesale Water Supply District No. 8, El Dorado, Kansas, is recognized by the Internal Revenue Service as a quasi-municipal corporation, under K.S.A. 88a-616, and is exempt from Federal and state income taxes. Accordingly, these financial statements do not include a provision for income taxes.

Use of Estimates

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

Reimbursed Expenses

K.S.A. 79-2934 provides that reimbursed expenditures, in excess of those budgeted, should be recorded as reductions in expenditures rather than as revenues. In the financial statement and budget comparisons presented in this report, reimbursements and refunds follow these guidelines.

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Kansas Statutes

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

Budgetary Information

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

4. DEPOSITS AND INVESTMENTS

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

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

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

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas District, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2012.

Deposits - At December 31, 2012, the District's carrying amount of deposits was \$301,686.65 and the bank balance was \$312,342.58. 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 \$62,342.58 was collateralized by pledged securities held by the pledging financial institutions' agent in the District's name.

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

6. CONCENTRATION OF RISK

The District has four customers. During 2012, sales to Rural Water District No. 3 accounted for 81.92% of the water sold. Risk of accounting loss exists from the possibility that a customer would no longer purchase water from the District. Impact of potential risk cannot be determined. The District is subject to the credit risk inherent in the public wholesale water district business.

7. ECONOMIC DEPENDENCY

Currently, the District purchases its water from the City of El Dorado, Kansas. To continue serving its patrons, the District is dependent upon the city to provide adequate, reasonably priced water. Accordingly, the District's operations are dependent upon the ability to purchase water from the City of El Dorado, Kansas.

8. COMMITMENTS

Public Wholesale Water Supply District No. 8 and the City of El Dorado entered into a contract on December 30, 1983 for the term of 40 years. The contract states that the City shall sell water to the District and the District shall purchase water from the City. The District shall not use more than 100,000 cubic feet of water per day without written permission. Future rates charged to the District shall bear the same proportionate ratio to domestic retail consumer rates with the City at the time of any rate change.

9. SUBSEQUENT EVENTS

There were no subsequent events requiring recognition in the financial statement. Additionally, there were no nonrecognized subsequent events requiring disclosure.

SUPPLEMENTAL INFORMATION

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 8

El Dorado, Kansas

Water Utility Fund

Schedule of Receipts and Expenditures - Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2012

(With Comparative Actual Amounts for the Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
Operating Revenues				
Charges for Services				
Water Sales	\$ 233,930.90	\$ 210,623.33	\$ 217,000.00	\$ (6,376.67)
Miscellaneous Revenue	436.07	575.43	500.00	75.43
Interest on Idle Funds	2,611.13	1,767.95	1,700.00	67.95
Total Receipts	<u>236,978.10</u>	<u>212,966.71</u>	<u>219,200.00</u>	<u>(6,233.29)</u>
Expenditures				
Personal Services				
Salaries	16,613.73	16,556.02	18,320.00	(1,763.98)
Payroll Tax	1,178.47	1,459.39	-	1,459.39
Commodities				
Water Purchased	174,984.78	162,105.20	170,000.00	(7,894.80)
Contractual Services				
Auditing	2,131.50	2,100.00	2,100.00	-
Utilities & Telephone	9,850.10	10,321.46	10,000.00	321.46
Administration Expense	287.44	296.13	500.00	(203.87)
Repairs and Maintenance	1,692.71	1,634.77	7,000.00	(5,365.23)
Lab Tests	342.00	342.00	500.00	(158.00)
Insurance	3,016.00	3,159.00	3,200.00	(41.00)
Capital Outlay	175.00	7,389.01	-	7,389.01
Total Expenditures	<u>210,271.73</u>	<u>205,362.98</u>	<u>193,300.00</u>	<u>(13,646.03)</u>
Receipts Over (Under) Expenditures	26,706.37	7,603.73	<u>\$ 25,900.00</u>	<u>\$ (19,879.32)</u>
Unencumbered Cash, Beginning	<u>249,739.63</u>	<u>276,446.00</u>		
Unencumbered Cash, Ending	<u>\$ 276,446.00</u>	<u>\$ 284,049.73</u>		

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 8

El Dorado, Kansas

Schedule of Insurance Coverage
December 31, 2012

	Date Expires	Amount
Commercial General Liability Schedule:		
General aggregate limit	5/13/2013	\$ 1,000,000.00
Products/completed operations aggregate limit		1,000,000.00
Personal and/or advertising injury limit		500,000.00
Each occurrence limit		500,000.00
Damage to Rented Premises (per occurrence)		100,000.00
Medical expense limit (any one person)		5,000.00
Buildings and Business Personal Property:		
Pump Station	5/13/2013	250,000.00
Covered 100% with a \$2,500 deductible per occurrence; policy includes replacement cost coverage		
Generator, Next to Pumphouse		100,000.00
Coinsurance is 90% with a \$2,500 deductible per occurrence; policy includes replacement cost coverage		
Workers' Compensation:		
Bodily Injury by Accident	5/13/2013	500,000.00
Bodily Injury by Disease (Each employee)		500,000.00
Bodily Injury by Disease (Policy limit)		500,000.00
Linebacker Error & Omissions:		
General aggregate limit	5/13/2013	1,000,000.00
Each Loss (Limit of Liability)		500,000.00
Deductible per loss		1,000.00



Communication of Material Weaknesses

Board of Directors
Public Wholesale Water Supply District No. 8
El Dorado, Kansas

In planning and performing our audit of the financial statement of Public Wholesale Water Supply District No. 8, as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Public Wholesale Water Supply District No. 8's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Public Wholesale Water Supply District No. 8's internal control. Accordingly, we do not express an opinion on the effectiveness of the Public Wholesale Water Supply District No. 8's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Public Wholesale Water Supply District No. 8's internal control to be material weaknesses:

Preparation of Financial Statement

Accounting standards states the client must be able to accept responsibility and be able to identify a material misstatement when reviewing the financial statement, including footnotes and supplemental information. This would also include knowing if a required footnote disclosure was missing or not correctly stated. Presently, the District staff does not have the ability to process and prepare the required financial statement, including footnotes. The potential effects of this material weakness could be unrecognized errors on the financial statement. While we recognize that this condition is not unusual for a district your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the District and changes in reporting requirements.

Jarred, Gilmore & Phillips, PA
CERTIFIED PUBLIC ACCOUNTANTS

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Segregation of Duties

An internal control structure is, quite simply, the procedures and policies in effect which ensure that the District's financial activity is properly recorded, processed, summarized, and reported in the financial statements. A weakness in the control structure occurs when one person is responsible for all of the accounting activities such as performing billings, receipting cash, making deposits, reconciling the bank accounts, and having access to all books and records of the District. Due to small staff size, it is not possible for reviews of daily work to take place, potentially resulting in errors in financial records and reports.

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



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

March 4, 2013
Chanute, Kansas