

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

Independent Auditors' Report
and Financial Statements
with Supplemental Information

For the Year Ended
December 31, 2012

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23

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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, 2012, 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 the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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, 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 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 opinions.

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 to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on 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, 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 the Public Wholesale Water Supply District No. 23 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 1.

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 schedules of regulatory basis receipts and expenditures-actual (Schedule 1 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the 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 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 the Public Wholesale Water Supply District No. 23’s internal control over financial reporting and compliance.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

September 30, 2013
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, 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	\$ 322,653.22	\$ 2,583,156.71	\$ 2,550,569.87	\$ 355,240.06	\$ 110,402.98	\$ 465,643.04
Water Utility Bond Reserve	135,333.33	80,831.69	-	216,165.02	-	216,165.02
Water Utility Replacement Reserve	92,318.27	2,533.30	-	94,851.57	-	94,851.57
Water Utility Principal and Interest	201,421.89	585,115.47	673,969.26	112,568.10	-	112,568.10
Total Reporting Entity	\$ 751,726.71	\$ 3,251,637.17	\$ 3,224,539.13	\$ 778,824.75	\$ 110,402.98	\$ 889,227.73

Composition of Cash:

Bank of Commerce - Operating	\$ 333,744.85
Bank of Commerce - Construction	170,503.21
Bank of Commerce - Reserve	94,851.57
Bank of Commerce - Certificate of Deposit	5,068.10
Bank of Commerce - Savings	203,320.02
The State Bank of Kansas - Savings	81,739.98
Total Cash and Investments	\$ 889,227.73

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, 2012

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 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.)

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, these financial statements do not present a provision for income taxes.

Accounting 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.

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.

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.

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:

<u>RESERVE ACCOUNTS</u>	<u>REQUIRED AMOUNT</u>	<u>ACTUAL AMOUNT</u>
Principal and Interest Account for Water Revenue Bonds Series 2009A & 2009B – requires transfers Monthly of 1/12 of next maturing interest and 1/12 of next maturing principal.	\$ 112,566.84	\$ 112,568.10
Debt Service Reserve Account for Water Revenue Bonds Series 2009A & 2009B - requires \$5,842.25 Per month until \$675,401.30 is reached.	<u>216,163.25</u>	<u>216,165.02</u>
TOTAL RESERVES AT DECEMBER 31, 2012	<u>\$ 328,730.09</u>	<u>\$ 328,733.12</u>

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

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 income 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 income is defined as gross income less operating expenses, but before any transfers, depreciation and capital expense. For the year ended December 31, 2012, the District had net revenues available for debt service of \$1,705,520.48. The loan agreement defines net revenues available for debt service to be revenues, less ordinary and necessary expenses of operating the system, but not including charges for interest and principal paid on the loan, or charges for depreciation. Therefore, this amount consists of receipts over expenditures, less debt service expenditures and capital outlay. Capital outlay is not considered to be an ordinary expense. The revenue bond ordinance requires net revenues available for debt service of \$742,941.14, which is 110% of the principal and interest requirements for 2013. Therefore, the District was in compliance with this covenant.

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 City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2012; 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, 2012, the District's carrying amount of deposits, including certificates of deposit was \$889,227.73 and the bank balance was \$903,528.14. The bank balance was held at two banks resulting in a concentration of credit risk. Of the bank balance, \$331,739.98 was covered by federal depository insurance (FDIC) and the remaining \$571,788.16 was collateralized by pledged securities held under joint custody receipts by a third-party bank in the District's name.

5. CONCENTRATION OF CREDIT 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.

6. 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.

7. COMMITMENTS AND CONTINGENCIES

The District placed \$80,000.00 in a joint savings account with the City of Fredonia, Kansas. This was money withheld from the purchase price of the water plant due to necessary repairs. At this time it is unclear whether the District will release this money to the City or retain it to cover the costs of repairs made.

In addition, as of December 31, 2012, the District was in negotiations with legal representatives of the initial engineering firm, whose services have been terminated. Subsequent to the year-end, the District has received a settlement in the amount of \$634,184.75.

8. LONG-TERM DEBT COMMITMENTS

Changes in long-term debt commitments for the District for the year ended December 31, 2012, 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
Revenue Bonds									
Paid with Water Revenues									
Series 2009-A	4.25%	October 22, 2009	\$ 9,273,106.00	December 1, 2049	\$ 9,273,106.00	\$ -	\$ (100,945.00)	\$ 9,172,161.00	\$ 394,107.01
Series 2009-B	3.375%	October 22, 2009	3,807,000.00	December 1, 2049	3,807,000.00	-	(50,431.00)	3,756,569.00	128,486.25
Total Long-Term Debt Commitments					<u>\$ 13,080,106.00</u>	<u>\$ -</u>	<u>\$ (151,376.00)</u>	<u>\$ 12,928,730.00</u>	<u>\$ 522,593.26</u>

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

	2013	2014	2015	2016	2017	2018 - 2022	2023 - 2027	2028 - 2032	2033 - 2037
Principal									
Revenue Bonds									
Series 2009-A	\$ 106,315.00	\$ 110,834.00	\$ 115,544.00	\$ 119,425.00	\$ 125,530.00	\$ 711,304.00	\$ 875,898.00	\$ 1,077,870.00	\$ 1,328,287.00
Series 2009-B	52,485.00	54,256.00	56,087.00	57,648.00	59,926.00	331,035.00	390,815.00	461,171.00	544,749.00
Total Principal Payments	<u>158,800.00</u>	<u>165,090.00</u>	<u>171,631.00</u>	<u>177,073.00</u>	<u>185,456.00</u>	<u>1,042,339.00</u>	<u>1,266,713.00</u>	<u>1,539,041.00</u>	<u>1,873,036.00</u>
Interest									
Revenue Bonds									
Series 2009-A	389,816.84	385,298.46	380,588.01	376,706.64	370,601.83	1,769,355.68	1,604,762.75	1,402,789.52	1,152,373.52
Series 2009-B	126,784.20	125,012.84	123,181.70	121,621.06	119,343.14	565,309.07	505,829.56	435,173.28	351,594.43
Total Interest Payments	<u>516,601.04</u>	<u>510,311.30</u>	<u>503,769.71</u>	<u>498,327.70</u>	<u>489,944.97</u>	<u>2,334,664.75</u>	<u>2,110,592.31</u>	<u>1,837,962.80</u>	<u>1,503,967.95</u>
Total Principal and Interest	<u>\$ 675,401.04</u>	<u>\$ 675,401.30</u>	<u>\$ 675,400.71</u>	<u>\$ 675,400.70</u>	<u>\$ 675,400.97</u>	<u>\$ 3,377,003.75</u>	<u>\$ 3,377,305.31</u>	<u>\$ 3,377,003.80</u>	<u>\$ 3,377,003.95</u>
Principal									
Revenue Bonds									
Series 2009-A	\$ 1,635,703.00	\$ 2,014,279.00	\$ 951,172.00	\$ 9,172,161.00					
Series 2009-B	643,134.00	759,292.00	345,971.00	3,756,569.00					
Total Principal Payments	<u>2,278,837.00</u>	<u>2,773,571.00</u>	<u>1,297,143.00</u>	<u>12,928,730.00</u>					
Interest									
Revenue Bonds									
Series 2009-A	844,956.41	466,380.03	61,597.54	9,205,227.23					
Series 2009-B	253,209.65	137,053.34	17,729.88	2,881,842.15					
Total Interest Payments	<u>1,098,166.06</u>	<u>603,433.37</u>	<u>79,327.42</u>	<u>12,087,069.38</u>					
Total Principal and Interest	<u>\$ 3,377,003.06</u>	<u>\$ 3,377,004.37</u>	<u>\$ 1,376,470.42</u>	<u>\$ 25,015,799.38</u>					

9. DEFINED BENEFIT PENSION PLAN

Plan description. The Authority participates in the Kansas Public Employees Retirement System (KPERS). A cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution rates. Effective July 1, 2009, KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

10. COMPENSATED ABSENCES

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 on the amount of \$6,104.34. 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.

11. 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	\$583,500.00
Water Utility	Water Utility Bond Reserve	K.S.A. 12-825d	80,385.00
Water Utility	Water Utility Replacement Reserve	K.S.A. 12-825d	2,319.63

12. SUBSEQUENT EVENTS

There were no subsequent events requiring recognition in the financial statements. Prior to year-end, the District was constructing a new water tower. The final payment in the amount of \$49,274.04 was paid in 2013 to complete the project. Also prior to year-end, the District entered into a contract with LaForge Construction for a water line to the new water tower, in the amount of \$114,819.00. In January 2013, the District entered into a contract with All State Filter for a filter rehab project in the amount of \$93,903.00.

SUPPLEMENTAL 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, 2012

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

	Prior Year Actual	Current Year Actual
Receipts		
Rural Development Grant	\$ 379,800.00	\$ 507,400.00
Water Sales	1,645,202.36	1,691,821.09
Interest on Idle Funds	861.28	665.23
Reimbursements	498,171.22	383,270.39
	2,524,034.86	2,583,156.71
Total Receipts		
Expenditures		
Operating Expenditures		
Personal Services		
Salaries	182,681.22	200,643.30
Employee Benefits	58,341.87	69,347.42
Contractual Services		
Mileage/Vehicle Expense	9,609.07	9,817.53
Contract Labor	3,769.32	71,300.10
Legal and Professional	93,643.65	108,796.02
Utilities	150,967.93	153,006.87
Dues, Subscriptions, and Meetings	1,844.32	2,171.31
Insurance	32,922.00	34,884.00
Commodities		
Office - Postage and Supplies	350.95	-
Chemicals	141,632.17	183,566.56
Supplies	30,076.74	47,230.43
Lab Tests	243.00	-
Miscellaneous	60.00	460.00
Capital Outlay		
Capital Outlay	404,326.01	1,003,141.70
Capital Outlay - K-47 Project	105,609.95	-
Operating Transfers To:		
Water Utility Principal and Interest Fund	620,000.00	583,500.00
Water Utility Bond Reserve Fund	135,080.00	80,385.00
Water Utility Replacement Reserve Fund	-	2,319.63
	1,971,158.20	2,550,569.87
Total Expenditures		
Receipts Over (Under) Expenditures	552,876.66	32,586.84
Unencumbered Cash, Beginning	(230,223.44)	322,653.22
Unencumbered Cash, Ending	\$ 322,653.22	\$ 355,240.06

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, 2012

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

	Prior Year Actual	Current Year Actual
Receipts		
Interest Income	\$ 253.33	\$ 446.69
Operating Transfers From Water Utility Fund	135,080.00	80,385.00
Total Receipts	<u>135,333.33</u>	<u>80,831.69</u>
Expenditures		
Capital Improvements Capital Outlay	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>
Receipts Over (Under) Expenditures	\$ 135,333.33	80,831.69
Unencumbered Cash, Beginning	<u>-</u>	<u>135,333.33</u>
Unencumbered Cash, Ending	<u>\$ 135,333.33</u>	<u>\$ 216,165.02</u>

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, 2012

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

	Prior Year Actual	Current Year Actual
Receipts		
Interest Income	\$ 2,329.01	\$ 1,615.47
Operating Transfers From Water Utility Fund	620,000.00	583,500.00
Total Receipts	622,329.01	585,115.47
Expenditures		
Debt Service		
Interest	522,593.26	522,593.26
Principal	-	151,376.00
Total Expenditures	522,593.26	673,969.26
Receipts Over (Under) Expenditures	99,735.75	(88,853.79)
Unencumbered Cash, Beginning	101,686.14	201,421.89
Unencumbered Cash, Ending	\$ 201,421.89	\$ 112,568.10

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, 2012

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

	Prior Year Actual	Current Year Actual
Receipts		
Interest Income	\$ 305.04	\$ 213.67
Operating Transfers From Water Utility Fund	-	2,319.63
Total Receipts	305.04	2,533.30
Expenditures		
Capital Improvements Capital Outlay	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	305.04	2,533.30
Unencumbered Cash, Beginning	92,013.23	92,318.27
Unencumbered Cash, Ending	\$ 92,318.27	\$ 94,851.57

YELLOW BOOK REPORTING SECTION

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 statements of Public Wholesale Water Supply District No. 23, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Public Wholesale Water Supply District No. 23's basic financial statements and have issued our report thereon dated September, 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 statements, 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency, 2012-001, as described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Wholesale Water Supply District No. 23's financial statements are free of 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 findings identified in our audit is described in the accompanying schedule of findings and responses. Public Wholesale Water Supply District No. 23's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

September 30, 2013
Chanute, Kansas

PUBLIC WHOLESALE WATER SUPPLY DISTRICT NO. 23

Schedule of Findings and Responses
For the Year Ended December 31, 2012

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

The auditors' report expresses a modified opinion in accordance with generally accepted accounting principles, on the financial statements 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 that are not considered to be material weaknesses?	<u> </u>	Yes	<u> X </u>	No
Non compliance or other matters required to be reported under <i>Government Auditing Standards</i>	<u> </u>	Yes	<u> X </u>	No

II. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2012-01 – 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.

District'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.