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From: Jessamine-South Elkhorn Water District

Sent: Friday, March 22, 2013 8:18 AM

To: Cline, Jeff D (PSC)

Subject: audit

If you need anything else, please let me know. Thanks, Diana

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS**

Financial Statements and Supplemental Information

December 31, 2012

With Independent Auditors' Report Thereon

**Fain, Mattingly & Associates, P.S.C.
Certified Public Accountants
100 John Sutherland Drive, Suite 2
Nicholasville, Kentucky**

JESSAMINE SOUTH ELKHORN WATER DISTRICT

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JESSAMINE SOUTH ELKHORN WATER DISTRICT
Water and Sewer Divisions

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) offers the readers of the Jessamine South Elkhorn Water District's financial statements this narrative overview and analysis of the financial activities of the Jessamine South Elkhorn Water District, Inc for the fiscal year ended December 31, 2012.

Jessamine South Elkhorn Water District, Inc. (hereafter described as "the District") was established in 1970 under KRS chapter 74 for the purpose of furnishing water service in Jessamine County. In August 1995 the District formed the sewer division to provide collection services for residents of Jessamine County.

The District, consisting of Jessamine South Elkhorn Water District, Water Divisions, and Jessamine South Elkhorn Water District Sewer Division, has been consolidated for reporting purposes. The entities share the same board of commissioners, central offices and employees.

The District is a special district formed for the express purpose of providing water service within the confines of Jessamine County, Kentucky. The Jessamine County Fiscal Court appoints an independent board of commissioners to govern the district. The District operates as an independent entity in that it is legally separate: holds corporate powers of organization: the Fiscal Court does not impose their will upon the district: and the District does not impose financial benefit or burden upon the fiscal court. The primary source of revenue for the District is provided by the resale and transmission of city water to local and remote areas of Jessamine County. The district also has assumed the responsibility of providing sanitary sewer transmission to remote areas of the count.

Highlights

- The District's assets exceeded its liabilities by \$ 15,616,244 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$15,785,460.
- Total net assets are comprised of the following:
 - Undesignated funds represent the portion available to maintain the District's continuing obligations to the citizens and creditors.

- The District's enterprise funds reported a total ending fund balance of \$15,616,244 this year. This compares to the prior year ending fund balance of \$15,785,460 showing a decrease of \$ 169,216 during the current year.
- At the end of the current fiscal year, unreserved fund balance for the Enterprise Fund was \$401,347, or 13.0% of total Enterprise Fund expenditures including transfers and 17.00 % of total Enterprise Fund revenues including transfers.
- The liabilities for the District in the current year of \$6,423,962. Prior year liabilities were \$6,369,386.
- Plant assets primarily include transmission lines for both water and sewer, pump stations, holding tanks, pump vaults, a building and vehicles.
- Revenues are provided by 2,720 water and 595 sewer customers.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the District's basic financial statements. The basis financial statements include government-wide financial statements which are the same as the proprietary fund statements and notes to the financial statements. The first of these government-wide statements is the *Statement of Net Assets*. This is a statement of the position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets.

The second government-wide statement is the Statement of Activities which reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

Business-type activities financial statements show the business-type activities that are intended to recover all or a significant portion of their costs through its activities. The District's business-type activities include development of sewer division and expansion of the water division to serve the citizens of Jessamine County.

Fund Financial Statements are used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance-related laws and regulations. The District only has the one fund and one business-type of activity. The District's proprietary fund, an enterprise fund, is reported as the government-wide financials, as they are both presented on the same basis.

The District uses the following funds for the water division:

Revenue Fund – The District deposits cash revenues of the utilities system, and to disburse as prescribed by bond covenants.

Operation and Maintenance Fund – The District deposits amounts equal to the estimated current expense of operating, maintaining, and insuring the system for the next ensuing month. The amounts shall be determined pursuant to the annual budget adopted by the District Board and are to be made to meet the reasonable and necessary expenses.

Depreciation Fund – The District deposits excess amounts from the Revenue Fund after provisions have first been made for the prescribed deposits, for the purpose of paying unusual or extraordinary maintenance repairs, renewals and replacement, during the life of the bond issues.

Reserve Fund – The District maintains the reserve fund account to meet a requirement that a bond reserve account of at least \$12,000 is to be maintained for the reserve required by the 2000 Bond Agreement

Construction Fund-This fund is to be used to construct additions, extensions, and improvements other than those of the Depreciation Fund.

At this time the sewer division operates one fund for all its activities.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Analysis of the Jessamine South Elkhorn Water District as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the District as a whole.

The District's net assets at fiscal year-end are \$ 15,616,244. This is an decrease of \$169,216 over last year's net assets of \$15,785,460. The following table provides a summary of the District's net assets:

	Business-type Activities		12 less 11	
	12/31/12	12/31/11	Amount Change	Percent Change
Assets				
Current and other Assets	615,912	666,009	(50,097)	-7.52%
Non-current assets	968,866	988,881	(20,015)	-2.02%
Deferred assets	133,210	53,046	80,164	151.12%
Capital assets	<u>20,322,218</u>	<u>20,446,910</u>	<u>(124,692)</u>	-0.61%
Total Assets	22,040,206	22,154,846	(114,640)	-0.52%
Liabilities				
Current and other Liabilities	347,709	204,285	143,424	70.21%
Current Long-term Debt	114,589	170,066	(55,477)	-32.62%
Non-Current Long-term Debt	<u>5,961,664</u>	<u>5,995,035</u>	<u>(33,371)</u>	-0.56%
Total Liabilities	6,423,962	6,369,386	54,576	-100.00%
Net Assets				
Invested in Capital Assets, Net of depreciation	14,245,965	14,281,809	(35,844)	-0.25%
Restricted	943,866	723,337	220,529	30.49%
Unrestricted Unreserved	401,347	513,433	(112,086)	-21.83%
Unrestricted-board designated depreciation reserves	<u>25,066</u>	<u>266,881</u>	<u>(241,815)</u>	-90.61%
TOTAL NET ASSETS	15,616,244	15,785,460	(169,216)	23.74%

The District reported positive balances in net assets for proprietary activities. Net assets decreased \$ 169,216 for proprietary activities. The District's overall financial position decreased during fiscal year 2012.

Because the District does not depend heavily upon interest income for operations and does not have any funds invested in the stock market, the decline in investment and market performance did not have a material effect.

Assets of the district have decreased primarily due to the depreciation on recently constructed of water lines in the unserved areas and sewer lines in the area.

Business-type expenditures during the current fiscal year were \$169,216 more than the revenues. The difference is attributable to depreciation.

Comparative data is accumulated and presented to assist analysis. The following table provides a summary of the District's changes in net assets:

	Business-type Activities		Amount	Percent
	12/31/12	12/31/11	Change	Change
General Revenues				
Water and Sewer Sales	\$ 2,719,575	\$ 2,552,519	\$ 167,056	
Penalties	31,252	37,144	(5,892)	
Service charges	16,924	5,846	11,078	
Miscellaneous revenues	29,675	31,325	(1,650)	
Total Revenues	<u>2,797,426</u>	<u>2,626,834</u>	<u>170,592</u>	6.49%
Operating expenses	<u>2,979,253</u>	<u>2,674,987</u>	<u>304,266</u>	11.37%
Net operating income(181,827)		(48,153)	(133,674)	277.60%
Other income	2,947	5,900	(2,953)	
Other expenses	(233,974)	(248,566)	14,592	
Subtotal other income/expenses	<u>(231,027)</u>	<u>(242,666)</u>	<u>11,639</u>	-4.80%
Connection fees & construction	132,161	134,748	(2,587)	
Governmental construction grants	111,477	667,913	(556,436)	
Subtotal capital income	<u>243,638</u>	<u>802,661</u>	<u>(559,023)</u>	-69.65%
Change in net assets	(169,216)	511,842	(681,058)	
Net Assets beginning of year	<u>15,785,460</u>	<u>15,273,618</u>	<u>511,842</u>	3.35%
Net Assets end of year	\$ <u><u>15,616,244</u></u>	\$ <u><u>15,785,460</u></u>	\$ <u><u>(169,216)</u></u>	-1.07%

As portrayed above and discussed earlier, the District is heavily reliant on revenues from sales of water and sewer services, which provides 98.9% and 98.2% of the District's operating revenues in fiscal years 2012 and 2011.

Financial Analysis of the District's Funds

Proprietary funds

Proprietary funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. The funds reported an ending fund balance of \$15,616,244. Of this year-end total, approximately \$401,347 is unreserved for operations, \$25,066 for Board designated projects, \$943,866 restricted for either debt service or construction and the balance in invested in fixed assets net of related debt of \$14,245,965.

The total ending fund balances of the proprietary fund shows a decrease of \$169,216 from the prior year. This decrease was due primarily to the increase of debt repayments and a decrease in grants revenues and conveyed assets.

Enterprise Fund Budgetary Highlights

The Enterprise Fund budget complied with financial policies approved by the Board of Directors and maintained the core District services.

Budgetary comparison statements are included in the additional supplemental information section of the financial statements for the water and sewer funds and the District combined. These statements and schedules include cash flows designated to the reduction of debt and purchase and construction of assets. Actual results are shown for operations only.

Capital Asset and Long-Term Debt Administration

Depreciation in the amount of \$633,775 was expensed on the statement of activities. During the year the District received grants and other connection fees for the construction of assets in the amounts of \$111,477 and \$132,161, respectively. Other financing of capital assets were provided by loans and operating funds. Net capital assets decreased by \$124,692 during the year.

At the end of the year the District had long-term debt consisting of bond issues, notes payable, and interim construction loans. During the current year the District issued new bonds 2012C in the amount of \$1,710,000 to retire the 2000A bonds in the amount of \$1,661,000. Repayment of \$137,849 in principal was made on other debt. Interest expense paid during the year on long-term debt was \$232,936, and \$3,984 was attributable to accrual and amortization adjustments.

Economic Environment and Next Year's Budgets and Rates

The general outlook for the District for the next year is for some growth in economic activity as a reflection of positive signs in the national economy. We also expect a positive boost in economic activity as a spin-off of the continued growth of the Lexington economy. Jessamine County's close proximity enables us to capitalize on that activity.

The District's future goals are to provide drinking water to every household that wishes to have service, in the designated territory. We also intend to provide sewer service to areas of expansion with special attention to EPA problem zones that create a health hazard to our customers.

The District will continue expansion of their operations to better serve the Jessamine County citizens with a reliable water source. This will include some replacement of small or deteriorated pipe and the construction of an additional 1 million gallon elevated tank located at the Catnip Hill location.

The District is currently reviewing alternative sources of water and distribution methods to better serve the residents of Jessamine County, while maintaining affordable rates.

Contacting the Jessamine South Elkhorn Water District's Financial Management

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations, and demonstrate the Jessamine South Elkhorn Water District's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the District at the following address:

Jessamine South Elkhorn Water District
802 South Main Street
Nicholasville, Kentucky 40356



Leta G. Mattingly, CPA
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Members of
Kentucky Society of
Certified Public Accountants
American Institute of
Certified Public Accountants

Charles D. Fain, III, CPA
(1955-2002)

Independent Auditors' Report

The Board of Commissioners
Jessamine South Elkhorn Water District
Water and Sewer Divisions
Nicholasville, Kentucky

We have audited the accompanying financial statements of the business-type activities, of the Jessamine South Elkhorn Water District (a special district government organization) as of December 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

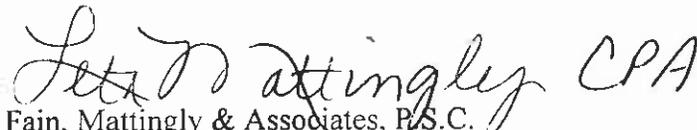
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 the Jessamine South Elkhorn Water District, Water and Sewer Divisions as of December 31, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2012, on our consideration of the Jessamine South Elkhorn Water District, Water and Sewer Divisions' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management discussion and analysis on pages 2 through 7 is presented as required and the budgetary comparison information on page 22 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the District's, basic financial statements. The accompanying supplemental schedules on pages 31 through 36 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of the management's discussion and analysis have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Fain, Mattingly & Associates, P.S.C.
Certified Public Accountants

March 5, 2013

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS**

Statement of Net Assets

December 31, 2012

	Water Division	Sewer Division	Total Business Activities
Assets			
Cash and current assets			
Cash and cash equivalents, unrestricted	\$ 339,144	\$ 74,298	\$ 413,442
Accounts receivable	186,404	3,962	190,366
Prepaid expenses	12,104		12,104
Due to (from) other funds	64,568	(64,568)	0
Cash and cash equivalents, restricted	561,342	407,524	968,866
Total cash and current assets	1,163,562	421,216	1,584,778
Capital Assets			
Land, improvements and construction in process	499,801	474,430	974,231
Other capital assets, net of depreciation	11,849,201	7,498,786	19,347,987
Total capital assets	12,349,002	7,973,216	20,322,218
Other non-current assets			
Unamortized bond costs	96,421	36,789	133,210
Total Assets	\$ 13,608,985	\$ 8,431,221	\$ 22,040,206
Liabilities			
Current Liabilities			
Accounts payable	\$ 60,315	\$ 10,991	\$ 71,306
Payroll taxes payable	1,166		1,166
Customer deposits	8,160	16,800	24,960
Other current liabilities		144,006	144,006
Interest payable	45,258	61,013	106,271
Total current liabilities	114,899	232,810	347,709
Current Portion of Debt			
Current notes payable	78,589		78,589
Current bonds payable	36,000		36,000
Total current portion of long-term debt	114,589	0	114,589
Long-term Debt			
Notes payable	2,427,164		2,427,164
Bonds payable	2,022,500	1,512,000	3,534,500
Total long-term debt	4,449,664	1,512,000	5,961,664
Total Liabilities	4,679,152	1,744,810	6,423,962
Net Assets			
Invested in capital assets, net of related debt	7,784,749	6,461,216	14,245,965
Restricted for:			
Debt service	78,695	115,882	194,577
Capital projects	152,514	291,642	444,156
Depreciation reserve	14,666		14,666
Operation and maintenance reserve	290,467		290,467
Unreserved, undesignated reported in:			
Unrestricted net assets	583,676	(182,329)	401,347
Board designated net assets	25,066	0	25,066
Total Net Assets	\$ 8,929,833	\$ 6,686,411	\$ 15,616,244

See accompanying notes to financial statements

JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
 Combined Statement of Revenues, Expenditures and Changes in Net Assets
 For The Year Ended December 31, 2012

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants & Contributions Revenues</u>	<u>Capital Grants & Contributions Revenues</u>	<u>Net (Expense) Revenue</u>
Functions/Programs					
Business-type Activities:					
Water Division					
Operating expense	\$ 1,819,970	\$ 2,312,421	\$	\$ 99,747	\$ 592,198
Interest expense	143,683				(143,683)
Depreciation expense	426,770				(426,770)
Sewer Division					
Operating expenses	525,508	455,330		143,891	73,713
Interest expense	90,291				(90,291)
Depreciation expense	207,005				(207,005)
Total Business Activities	<u>\$ 3,213,227</u>	<u>\$ 2,767,751</u>	<u>\$ 0</u>	<u>\$ 243,638</u>	<u>(201,838)</u>
Revenues					
Investment income - water					2,646
Investment income - sewer					301
Other revenues					29,675
Total General Revenues					<u>32,622</u>
Excess of Revenues Over (Under)					
Change in Net Assets					(169,216)
Net assets beginning of year - 1/1/12					<u>15,785,460</u>
Net assets end of year - 12/31/12					<u>\$ 15,616,244</u>

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 2,699,228
Other operating receipts	29,979
Cash payments for personnel expenses	(400,827)
Cash payments for goods and services	<u>(1,898,780)</u>
Net cash provided by (used in) operating activities	<u>429,600</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Net customer deposits	132,161
Grants received	111,477
Borrowings under long-term obligations	1,655,238
Purchases of capital assets	(509,082)
Principal paid on long-term obligations	(1,738,236)
Interest paid on long-term obligations	<u>(222,434)</u>
Net cash provided by (used in) capital and related financing activities	<u>(570,876)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Income from investments	<u>2,947</u>
Net cash provided by (used in) investing activities	<u>2,947</u>
Net change in cash and cash equivalents	(138,329)
Cash and equivalents, beginning of year	<u>1,520,637</u>
Cash and equivalents, end of year	<u>\$ 1,382,308</u>

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
For the Year Ended December 31, 2012**

	<u>Total</u>
Reconciliation of cash and cash equivalents to the proprietary funds statement of net assets:	
Cash and cash equivalents-unrestricted	\$ 413,442
Cash and cash equivalents-restricted	968,866
Total cash and cash equivalents per the proprietary funds statement of net assets	1,382,308
Reconciliation of income (loss) from operations to net cash flows from operating activities:	
Income (loss) from operations	\$ (181,827)
Depreciation expense	633,775
(Increase) decrease in operating assets:	
Accounts receivable	(68,523)
Other current assets	304
Increase (decrease) in operating liabilities:	
Accounts payable and other accrued expenses	25,544
Meter deposits and other liabilities	20,327
Net cash provided by (used in) operating activities	\$ 429,600
Non-cash investing, capital, and financing activities:	
Defeasance of 2000A debt	\$ 47,850

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies for the Jessamine South Elkhorn Water District, Water and Sewer Divisions (the District) is presented to assist in understanding the District's financial statements. The financial statements and the related notes are representations of the District's management who is responsible for their integrity and objectivity. The accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Financial Reporting Entity

The District, consisting of Jessamine South Elkhorn Water District, Water Divisions, and Jessamine South Elkhorn Water District Sewer Division, has been consolidated for reporting purposes. The entities share the same board of commissioners, central offices and employees.

The District is a special district formed for the express purpose of providing water service within the confines of Jessamine County, Kentucky. The Jessamine County Fiscal Court appoints an independent board of commissioners to govern the district. The District operates as an independent entity in that it is legally separate and holds corporate powers of organization. The Fiscal Court does not impose its will upon the district. The District does not impose financial benefit or burden upon the Fiscal Court.

Basis of Presentation

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, including Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis, which mandates the new reporting model implemented by the District. The following is a summary of significant accounting policies.

Basis of Accounting

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Furthermore, both long term and current assets and liabilities are included in the statement of net assets.

The District uses a proprietary enterprise fund to account for the activities of the District which are similar to those found in private business enterprises. The funds were established to account for the acquisition, operation, and maintenance of the District's facilities and services which are predominately self-supported by user charges. Where the District has a periodic determination of net income, it is appropriate to use the funds for capital maintenance, public policy, management control accountability, or other purposes.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The District uses the flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current on non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets. Net assets are segregated into investment in capital assets, restricted, and unrestricted. The operating statement presents increases (e.g. revenues and expenses) in net assets. The District’s financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

Cash and Investments

Kentucky Revised Statute 66.480 authorizes the District to invest in obligations of the U.S. Treasury, in bonds or certificates of indebtedness of this state and of its agencies; savings and loan associations insured by an agency of the government of the United States up to the amount so insured; interest bearing deposits in state or national banks chartered in Kentucky and insured by an agency of the United States up to the amount so insured, and in larger amounts, providing such bank pledges as security obligations equal to uninsured amounts.

Cash and Cash Equivalents

The District considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the proprietary funds statement of cash flows. The District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Use of 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.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Property, Plant and Equipment of the District are stated at cost and depreciated over their estimated useful lives using the straight line method. Furniture and equipment is depreciated over the useful life of 5-10 years. Capital assets and the depreciation expense on capital assets purchased before the addition of the sewer division are presented as water division assets. Capital assets that are added since the addition of the sewer division have been allocated to both divisions based on current number of customers served at the time of the addition.

Interest costs are capitalized when incurred by proprietary fund on debt where the proceeds are used to finance the construction of fixed assets.

Long-term Obligations - In proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Bond Discount/Premiums and Issuance Cost

In the government-wide financial statements and proprietary fund types in the fund financial statements, bond discount/premiums and issuance costs are capitalized in the year of issue and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize bond discounts/premiums (financing uses/sources) and issuance costs (debt service expenditures) during the current period.

Inventories

The District has not historically inventoried unsold water, nor accounted for unbilled water or sewer usage as of the year end. Similarly, the District does not accrue costs for water purchases unbilled to it as of the year end. The District does not inventory supplies or similar items unless such items are determined to be significant.

Equity Classifications

Equity is classified as net assets and is displayed (if applicable) in the following three components:

Invested in capital assets, net of related debt- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of notes or other borrowings that are attributable to the acquisitions, construction, or improvements of those assets.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Assets-Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) laws through constitutional provisions or enabling legislation.

Unrestricted Net Assets- All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Budget

State law requires an annual budget for local supporting governments. The budget presentation for the District is not a required statement, but is presented the statement under other supplemental information.

Income Taxes

Per state law KRS 154.50-343, title to all property acquired by the District shall vest in the District and shall be exempt from taxations to the same extent as other property used for public purposes. All revenues collected by the District shall also be exempt from taxation.

Revenues and Expenses/Expenditures

The primary sources of the District’s revenues are from operating revenues and expenses for proprietary (enterprise) funds that result from providing services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities.

The proprietary funds report expenses relating to the use of economic resources. Proprietary fund expenses are classified by function in the proprietary fund statement of revenues, expenses, and changes in net assets, with detail by natural or object classification provided as supplemental information.

Allocation of administrative and other overhead costs are prorated to the water and sewer divisions based on the number of customers served by each division.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Events or transactions that affect financial statement amounts or disclosures sometimes occur subsequent to period end, but before the financial statements are issued. Subsequent events, if applicable, may impact the current financial statements or may reveal conditions that did not exist at the financial statement date. The search for subsequent events is covered through the date of the auditors' report.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include:

Depositories must be FDIC insured banking institutions,
Depositories must fully insure or collateralize all demand and time deposits and repurchase agreements,
Securities collateralizing repurchase agreements are to be held by independent third parties.

The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporations (FDIC).

Bank Deposits

Deposits (cash and certificates of deposits) are carried at cost, which approximates fair value. At December 31, 2012, the carrying amounts of the District's deposits were \$1,382,308 and the bank balances and cash on hand were \$1,561,178 and \$46, respectively. The District's cash deposits are classified as follows:

Category 1. Insured \$1,175,102.

Category 2. Collateralized with securities held by the pledging financial institution - None.

Category 3. Uncollateralized consists of uncovered balances and cash on hand in the amounts of \$386,076 and \$46 respectively.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
 WATER AND SEWER DIVISIONS
 NOTES TO FINANCIAL STATEMENTS (Continued)
 December 31, 2012**

NOTE 2 – CASH DEPOSITS AND INVESTMENTS (Continued)

	<u>Cash and Cash Equivalents</u>	<u>Board Restricted Cash and Cash Equivalents</u>	<u>Restricted Cash and Cash Equivalents</u>	<u>Total</u>
Revenue Fund	\$ 124,391	\$ 25,066	\$ 115,355	\$ 264,812
Operation and Maintenance Fund	18,612			18,612
Bond & Interest Fund- Water			78,695	78,695
Bond & Interest Fund- Sewer			115,882	115,882
Debt Service Reserve Account			175,112	175,112
Depreciation Fund			14,600	14,600
Construction Fund-W	196,141		152,514	348,655
Construction Fund-S			291,642	291,642
Sewer accounts	<u>74,298</u>			<u>74,298</u>
Totals	<u>\$ 413,442</u>	<u>\$ 25,066</u>	<u>\$ 943,800</u>	<u>\$ 1,382,308</u>

Investments

The District has no monies invested in accounts other than bank checking and savings accounts.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 3 – RECEIVABLES

Accounts receivable from customers and taxpayers are less an allowance for uncollectible balances. Additions to the allowance are charged to operations in the period in which the receivable becomes impaired. The District provides an allowance based on historical collection experience and a review of the current status of existing receivables. Usually no allowance for utility services has been required, but during 2012 an allowance of \$625 is included. The sewer expansion has created receivables related to reimbursements due from developers, some of which appear uncollectible. Estimated allowances of \$117,099 have been recorded for these receivables and during the current year. During 2012 the water fund wrote off receivables \$3,925 and the sewer fund \$11,993.

NOTE 4 – CAPITAL ASSETS

The Utility plant is stated at original cost and depreciated over its estimated useful life using the straight-line method. Expenditures for maintenance and repairs are expensed when incurred. Renewals and betterments are capitalized. The range of useful lives used in computing depreciation is as follows:

- Transmission and distribution lines and related components and structures-40years
- Meters and Services - 40 years
- Office furnishings - 1 to10 years
- Office equipment - 5 years
- Vehicles - 6 years

For the year ending December 31, 2012, total depreciation expense was \$426,770 for the water division and \$207,005 for the sewer division. No completed construction projects were removed from non-depreciable assets and reclassified as depreciable assets. The following table summarized capital asset activity during the year ended December 31, 2012 is as follows:

Grants received during the year for water construction projects were \$73,997 and for sewer construction projects were \$37,480.

There was no capitalized interest for the water or sewer divisions during the current year.

During the current year there were no conveyed assets by developers.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 4 – CAPITAL ASSETS (Continued)

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Totals</u>
<u>Non-Depreciable</u>				
Construction in process water	\$ 122,173	\$ 377,629	\$	\$ 499,802
Construction in process sewer	379,304	95,125		474,429
Total non-depreciable	<u>501,477</u>	<u>472,754</u>	<u>0</u>	<u>974,231</u>
<u>Depreciable</u>				
Utility plant/distribution system	16,114,870	36,329		16,151,199
Sewer collection	8,139,815			8,139,815
Building	450,000			450,000
Operating equipment/furn	11,634			11,634
Transportation water	18,047			18,047
Transportation sewer	17,032			17,032
Communication water	50,121			50,121
Communication sewer	1,031			1,031
	<u>24,802,550</u>	<u>36,329</u>	<u>0</u>	<u>24,838,879</u>
Accumulated Depreciation-Water	(4,405,030)	(426,770)		(4,831,800)
Accumulated Depreciation-Sewer	(452,087)	(207,005)		(659,092)
Total depreciation	<u>(4,857,117)</u>	<u>(633,775)</u>	<u>0</u>	<u>(5,490,892)</u>
Total depreciable assets net of depreciation	<u>19,945,433</u>	<u>(597,446)</u>	<u>0</u>	<u>19,347,987</u>
Totals	<u>\$ 20,446,910</u>	<u>\$ (124,692)</u>	<u>\$ 0</u>	<u>\$ 20,322,218</u>

The District had multiple construction projects which were in process at the beginning and/or the end of the year. A brief recap of the projects is summarized as follows:

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
 WATER AND SEWER DIVISIONS
 NOTES TO FINANCIAL STATEMENTS (Continued)
 December 31, 2012**

NOTE 4 – CAPITAL ASSETS (Continued)

1. The North Jessamine Sewer Project: The purpose of this project is to acquire and construct certain facilities and improvements to the waterworks and sewer system in northern Jessamine County. This project is anticipated to cost \$6,064,000 and is being financed with Grants from the EPA (\$2,850,700), HUD (\$1,000,000), RD Grant (\$941,300) and RD Loan (\$1,272,000). Grant monies of \$349,453 were received in 2011. Total costs to date are \$5,561,039 for the completed portions of the project and work in process consists of \$474,429. Final phases are expected to be completed in the upcoming year.

2. Unserved II Rural Jessamine Water Project: The purpose of this project is to provide potable drinking water to the citizens of Jessamine County. The project is financed by the balance of Unserved I grants from the KIA (\$1,600,000) and Keene Project grants. Grant monies of \$73,997 were received in 2012. Costs incurred during 2012 were \$377,629, bringing the project costs for both Unserved I and Unserved II to \$2,491,426. Completed portions of the projects totaling \$1,991,625 have been removed from work in process and are included in previous and current additions to the depreciable assets. Portions of the projects still under construction totaling \$499,802 are included in work in process.

NOTE 5 – PAYABLES

Accounts payables consist of payments due to vendors for operations and maintenance of the water and sewer division, construction costs and various taxes related to payroll and sales. A breakdown of payables follows:

Accounts payable water	\$	60,315
Accounts payable sewer		10,991
Sales tax payable		<u>1,166</u>
 Total current payables	 \$	 <u><u>72,472</u></u>

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 6 – LONG-TERM DEBT

Notes payable

- In 1992, the District received a loan from the Kentucky Infrastructure Authority Fund C91-01, in the amount of \$1,924,874. The proceeds of this loan went to finance the infrastructure improvement to the water distribution system. The note represents the District's portion of the of the Kentucky Infrastructure Authority Governmental Agencies Program Revenue Refunding Bonds series K issue C91-01 and currently bears interest at the rate of 3.16%. The District capitalized costs associated with an initial refinancing in the amount of \$57,122 in 2003 and an additional \$18,522 from the succeeding refinancing in 2004 which is being amortized over the remaining life of the issue. The issue matures in June 2013 and bears a weighted average interest rate over the term of the note of 4.29%.

Payments for the loan are as follows:

<u>As of June 30</u>	<u>Principal</u>	<u>Interest & Service fee</u>	<u>Total</u>
2013	\$ 60,000	\$ 3,234	\$ 63,234
Totals	<u>\$ 60,000</u>	<u>\$ 3,234</u>	<u>\$ 63,234</u>

- In 2002, the District received a loan from a local bank with a principal amount of \$400,000. The proceeds were used to complete funding for a \$3,500,000 project in Southeast Jessamine County. In 2010, the note was refinanced at 5.75% for \$356,865 with 11 quarterly payments of \$7,210 and a balloon payment of \$360,688 in May 2013. The District expects to refinance this note at that time. The balance on December 31, 2012 is \$312,294.
- In 2008, the District borrowed \$450,000 to purchase a building for the District's operations. The note is secured by the District's office facilities and bears an annual rate of interest of 5.50%. The note calls for monthly payments of \$2,585 and matures with a balloon payment due in April 2018 of \$375,851. The balance on December 31, 2012 is \$418,062.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 6 – LONG-TERM DEBT (Continued)

- In June 2007, the District received a loan from Kentucky Infrastructure Authority Fund F07-02 not to exceed \$1,750,000. The proceeds are being used to construct the Keene system water main and hydraulic reinforcement loop lines. During 2010, the KIA approved use of the remaining funds for the Unserved II project. The loan interest rate is 3.00% with semi-annual payments of interest commencing with the first draw. Principal is to be repaid in semi-annual payments over a term of 20 years beginning with the initial operations. It is estimated that the first principal payment will be in 2012. The loan's outstanding principal balance as of December 31, 2012 totals \$1,715,296 and will not be included in the repayment schedule below until after the final closing.

Payments for the closed loans, assuming loans with balloon payments are refinanced, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 78,589	\$ 44,505	\$ 123,094
2014	19,672	40,188	59,860
2015	20,818	39,043	59,861
2016	22,030	37,830	59,860
2017	23,313	36,547	59,860
2018-2022	138,584	160,718	299,302
2023-2027	183,924	115,378	299,302
2028-2032	161,897	61,203	223,100
2033-2035	141,630	22,736	164,366
Totals	<u>\$ 790,457</u>	<u>\$ 558,148</u>	<u>\$ 1,348,605</u>

Bonds

- In 1999, the District issued revenue bonds Series 2000B in the amount of \$400,000 the proceeds of which were to finance the expansion of the waters works system, and to be secured by that system. Payments of interest, at a 5.25% annual rate, are due annually on January 1st and the bonds mature serially each January 1 through January 2039. The balance on December 31, 2012 is \$348,500.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 6 – LONG-TERM DEBT (Continued)

- In March 2010, the District issued Series 2008A revenue bonds for \$750,000, Series 2008B revenue bonds for \$522,000, and Series 2009A for \$240,000. Proceeds of the bonds were used to retire interim financing from Kentucky Rural Water Association (KRWA) for the North Jessamine sewer project. The balance on December 31, 2012 is \$1,512,000.
- In April 2012, the District issued revenue bonds, Series 2012C (the “2012C Bonds”) in the amount of \$1,710,000. The proceeds were used to advance refund and defease the outstanding Utilities Revenue Bonds, Series 2000B and to pay related costs of issuance. The advance refunding resulted in a difference between the funds required for refunding and the net carrying amount of the old debt. This difference (\$39,591), reported in the accompanying financial statements as a reduction of long-term obligations, is being deferred and amortized as a component of interest expense over the remaining life of the old debt.

The economic gain from the advance refunding is approximately \$396,083, and the difference between the cash flow requirements necessary to service the old debt and the cash flow requirements necessary to service the new debt along with other payments necessary to complete the advance refunding is outlined below:

<u>Gross Debt Service Comparison</u>			
Year Ended June 30	Cash Flow Requirements New	Cash Flow Requirements Old	Savings
2012	\$	\$ 43,601	\$ 43,601
2013	105,425	115,441	10,016
2014	104,693	115,866	11,173
2015	103,726	115,213	11,487
2016	102,758	115,480	12,722
2017	514,419	577,738	63,319
2018	512,546	575,123	62,577
2019	501,400	573,132	71,732
2020	499,802	571,646	71,844
2021	303,850	341,462	37,612
Total	<u>2,748,619</u>	<u>3,144,702</u>	<u>396,083</u>

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 6 – LONG-TERM DEBT (Continued)

At December 31, 2012, the future debt service requirements of the revenue bonds for the water and sewer divisions are as follows:

	Principal	Interest	Total
2013	\$ 36,000	\$ 123,981	\$ 159,981
2014	69,300	138,287	207,587
2015	70,400	136,286	206,686
2016	71,000	134,234	205,234
2017	72,600	132,156	204,756
2018-2022	410,500	621,508	1,032,008
2023-2027	481,100	542,127	1,023,227
2028-2032	582,500	438,913	1,021,413
2033-2037	709,500	309,488	1,018,988
2038-2042	485,000	164,523	649,523
2043-2047	298,100	95,440	393,540
2048-2050	284,500	29,628	314,128
Totals	\$ 3,570,500	\$ 2,866,571	\$ 6,437,071

Debt Covenants

The Series 2000, 2008 and 2009 bond ordinances established the following accounts, as well as certain requirements as follows:

1. Utilities Revenue Fund – The District agrees to deposit, therein promptly as received from time to time, all cash revenues of the utilities system, and to disburse there from in the manner and order of priorities as described in the following paragraphs.

2. Revenue Bond Fund Principal and Interest Sinking Fund-Sewer Fund – The District deposits each month an amount equal to one twelfth (1/6) of the amount of interest becoming due on all bonds outstanding on the next ensuing semi-annual interest payment date, plus one twelfth (1/12) of the amount of principal of all bonds outstanding which are maturing on the next ensuing October 1st. As of December 31, 2012, the balance in this account (\$115,355) exceeds what is required.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 6 – LONG-TERM DEBT (Continued)

3. Debt Service Reserve Account –The 2000 Bond Agreement calls for monthly reserve accumulations of \$1,190 and the 2008/9 Bond Agreement calls for monthly reserve accumulations of \$995. The District is to maintain a balance equal to the lesser of (1) the maximum amount of principal and interest which will become due and payable on all bonds in any period of twelve months ending January 1, (2) 125% of the average annual amount of principal and interest due on all bonds, or (3) 10% of the proceeds of the bonds. As of December 31, 2012, the accounts that comprise the Debt Service Reserve Account-Water (\$115,355) and Debt Service Reserve Account-Sewer (\$115,882) exceed what is required.
4. Operation and Maintenance Fund – The District shall deposit an amount equal to the estimated current expense of operating, maintaining, and insuring the system for the next ensuing month. The amounts shall be determined, pursuant to the annual budget adopted by the District Board, are to be made to meet the reasonable and necessary expenses. As of December 31, 2012, the total balance of the funds that comprise the Operation and Maintenance Fund exceeds what is required.
5. Depreciation Fund – The District shall deposit amounts from the Revenue Fund after provisions have first been made for the prescribed deposits into the Revenue Bond Fund principal and interest accounts and the Operation and Maintenance Fund, until reaching a balance of \$12,000 to comply with covenants of the bonds issued. This fund is for the purpose of paying unusual or extraordinary maintenance repairs, renewals and replacement. \$14,666 has been accumulated as of December 31, 2012, and exceeds the amount required.
6. Construction Fund-This fund is to be used to construct additions, extensions, and improvements other than those of the Depreciation Fund. Bond covenants require funds received during bond sales for construction purposes be segregated and spent for that purpose only. The District holds no restricted funds from bond sales as of December 31, 2012.
7. Sewer accounts-These accounts were opened subsequent to the Bond Agreements and are not restricted by formal Ordinance.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 6 – LONG-TERM DEBT (Continued)

Activity in the long-term obligations of the District during the year ended December 31, 2012 is summarized as follows:

	Balance 12/31/2011	Increases	Decreases	Balance 12/31/2012	Due in one year
KIA Refunding KC91-01	\$ 177,500	\$ -	\$ 117,500	\$ 60,000	\$ 60,000
Farmers Bank Note	325,133	-	12,739	312,394	10,872
Farmers Office Bldg	425,672	-	7,609	418,063	7,718
KIA Interim	1,715,296	-	-	1,715,296	-
Total loans	2,643,601	-	137,848	2,505,753	78,590
Revenue bonds:					
Series 2000	2,009,500		1,661,000	348,500	6,000
Series 2008/2009	1,512,000			1,512,000	-
Series 2012		1,710,000		1,710,000	-
Total revenue bonds	3,521,500	1,710,000	1,661,000	3,570,500	6,000
Totals	\$ 6,165,101	\$ 1,710,000	\$ 1,798,848	\$ 6,076,253	\$ 84,590

NOTE 7 – COMPENSATION

Employees for the District are either salary or hourly workers. Some are full-time and some work part-time. The Commissioners on the board receive an annual payment to offset the expenses of serving on the board that is included in payroll. The District offers employees insurance coverage and the option to participate in a retirement program. The Commissioners are not covered by employee health or retirement programs.

	Water	Sewer	Total
Compensation Staff	\$ 201,540	\$ 94,674	\$ 296,214
Commissioners	22,157	4,843	27,000
Payroll taxes	21,917	3,743	25,660
Health insurance	31,150	6,815	37,965
Pension benefits	11,500	2,488	13,988
Totals	\$ 288,264	\$ 112,563	\$ 400,827

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 8 – ACCRUED COMPENSATION

It is the District's policy to permit employees to accumulate earned but unused vacation leave and sick pay benefits. The policy of the District is to not accrue the cost of vacation or sick leave as unpaid compensated absences because they are not materially significant.

Vacation days are accrued at 5 days per year for the first year, 10 days up to five years and 15 days from year six and beyond. Unused days may be carried over, but shall not exceed twenty days entering into a new calendar year.

Sick days are earned by employees as one day for every month of employment and may accumulate to a total of no more than seventy-five days.

NOTE 9 – INSURANCE AND RISK MANAGEMENT

The District is exposed to various forms of loss associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility and torts, injuries to employees, natural disasters, etc. Each of these risk areas is covered through the purchase of a commercial insurance package. The District has purchased certain policies which are rated including workers' compensation insurance. Premiums for these policies are based upon the District's experience to date.

NOTE 10 – RESTRICTED AND BOARD RESERVED NET ASSETS

Certain proprietary funds are restricted for construction funded through long-term debt, permits and connections fees and grant revenues. Net assets restricted for debt service include the excess of assets over certain liabilities restricted for the debt service on revenue bonds. Restricted assets are also reported in various funds for cash deposited in bank accounts legally restricted for specified uses such as the payment of debt service or retainage on capital projects. The restricted assets in the accompanying financial statements are restricted as to use by ordinance, external parties or by board reserve. The following schedule sets forth those net assets reserved and restricted as of December 31, 2012.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2012**

NOTE 10 – RESTRICTED AND BOARD RESERVED NET ASSETS (Continued)

	<u>Board Reserved</u>	<u>Restricted Amount</u>	<u>Total Balance</u>
Customer deposits	\$ 25,066	\$	\$ 25,066
Depreciation Fund		14,666	14,666
Reserve Revenue Fund		115,355	115,355
Reserve Fund		175,112	175,112
Debt service-Water		78,695	78,695
Debt service-Sewer		115,882	115,882
Construction accounts-Water		152,514	152,514
Construction accounts-Sewer		<u>291,642</u>	<u>291,642</u>
Totals	<u>\$ 25,066</u>	<u>\$ 943,866</u>	<u>\$ 968,932</u>

NOTE 10 – SUBSEQUENT EVENTS

The District continues to resolve two disputes with developers regarding construction projects and whether the District is responsible for certain costs. At this time, it is believed that the District has lived up to their contracts and the issues are without merit. Efforts are being made to resolve both issues with mediation. It is not possible at this time to estimate any costs for which the District may be liable.

OTHER SUPPLEMENTAL INFORMATION

JESSAMINE SOUTH ELKHORN WATER DISTRICT
 COMBINING BALANCE SHEET
 PROPRIETARY FUNDS
 December 31, 2012

	Revenue Fund	Operations and Maintenance Fund	Depreciation Fund	Reserve Fund	Construction Fund	Sewer Fund	Totals
ASSETS							
<u>Current Assets</u>							
Cash and cash equivalents, unrestricted	\$ 124,391	\$ 18,612	\$ -	\$ -	\$ 196,141	\$ 74,298	\$ 413,442
Receivables	105,158	7,249	-	-	73,997	3,962	190,366
Intra-fund advances	64,568	-	-	-	-	(64,568)	-
Prepaid expenses and other receivables	39	11,999	66	-	-	-	12,104
Total Current Assets	<u>294,156</u>	<u>37,860</u>	<u>66</u>	<u>-</u>	<u>270,138</u>	<u>13,692</u>	<u>615,912</u>
 Cash and cash equivalents, restricted	 <u>140,421</u>	 <u>-</u>	 <u>14,600</u>	 <u>175,112</u>	 <u>231,209</u>	 <u>407,524</u>	 <u>968,866</u>
<u>Utility Plant</u>							
Non-depreciable capital assets							
Construction in process	-	125,316	-	-	374,485	474,430	974,231
Depreciable capital assets							
Pumping Plant and Distribution System	-	-	-	-	16,681,001	8,157,878	24,838,879
Less accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,831,800)</u>	<u>(659,092)</u>	<u>(5,490,892)</u>
	<u>-</u>	<u>125,316</u>	<u>-</u>	<u>-</u>	<u>12,223,686</u>	<u>7,973,216</u>	<u>20,322,218</u>
 Other Assets-Unamortized bond costs	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>96,421</u>	 <u>36,789</u>	 <u>133,210</u>
Total Assets	<u>\$ 434,577</u>	<u>\$ 163,176</u>	<u>\$ 14,666</u>	<u>\$ 175,112</u>	<u>\$ 12,821,454</u>	<u>\$ 8,431,221</u>	<u>\$ 22,040,206</u>

See accompanying notes to financial statements

JESSAMINE SOUTH ELKHORN WATER DISTRICT
 COMBINING BALANCE SHEET
 PROPRIETARY FUNDS (Continued)
 December 31, 2012

	Revenue Fund	Operations and Maintenance Fund	Depreciation Fund	Reserve Fund	Construction Fund	Sewer Fund	Totals
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ -	\$ 60,315	\$ -	\$ -	\$ -	\$ 10,991	\$ 71,306
Sales, utilities and payroll taxes payable	1,166	-	-	-	-	-	1,166
Customer deposits	8,160	-	-	-	-	16,800	24,960
Other current liabilities	-	-	-	-	-	144,006	144,006
Accrued interest	-	-	-	-	45,258	61,013	106,271
Current portion of long-term debt	-	-	-	-	114,589	-	114,589
	<u>9,326</u>	<u>60,315</u>	<u>-</u>	<u>-</u>	<u>159,847</u>	<u>232,810</u>	<u>462,298</u>
Long-Term Debt							
Notes payable					2,427,164		2,427,164
Revenue bonds					2,022,500	1,512,000	3,534,500
Total Long-Term Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,449,664</u>	<u>1,512,000</u>	<u>5,961,664</u>
Total Liabilities	<u>9,326</u>	<u>60,315</u>	<u>-</u>	<u>-</u>	<u>4,609,511</u>	<u>1,744,810</u>	<u>6,423,962</u>
Fund balances							
Invested in capital assets, net of related debt		125,316			7,659,433	6,461,216	14,245,965
Restricted for:							
Debt service					78,695	115,882	194,577
Construction fund					152,514	291,642	444,156
Depreciation reserve			14,666				14,666
Operation and maintenance reserve	115,355			175,112			290,467
Unreserved, undesignated reported in							
Unrestricted	284,830	(22,455)			321,301	(182,329)	401,347
Board designated	25,066						25,066
Total Fund Balances	<u>425,251</u>	<u>102,861</u>	<u>14,666</u>	<u>175,112</u>	<u>8,211,943</u>	<u>6,686,411</u>	<u>15,616,244</u>
Total Liabilities and Fund Balances	<u>\$ 434,577</u>	<u>\$ 163,176</u>	<u>\$ 14,666</u>	<u>\$ 175,112</u>	<u>\$ 12,821,454</u>	<u>\$ 8,431,221</u>	<u>\$ 22,040,206</u>

See accompanying notes to financial statements

JESSAMINE SOUTH ELKHORN WATER DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2012

	Revenue Fund	Operations and Maintenance Fund	Depreciation Fund	Reserve Fund	Construction Fund	Sewer Fund	Totals
REVENUES							
Water sales	\$ 2,264,072	\$ 173	\$ -	\$ -	\$ -	\$ -	\$ 2,264,245
Sewer fees	-	-	-	-	-	455,330	455,330
Penalties	20,660	-	-	-	-	10,592	31,252
Service charges	7,739	-	-	-	-	9,185	16,924
Miscellaneous revenues	644	546	-	-	28,485	-	29,675
	<u>2,293,115</u>	<u>719</u>	<u>-</u>	<u>-</u>	<u>28,485</u>	<u>475,107</u>	<u>2,797,426</u>
Total Revenues							
EXPENDITURES							
Water purchased and sewer usage	-	1,266,710	-	-	-	248,227	1,514,937
Engineering	-	46,253	-	-	-	74,337	120,590
Other professional services	-	5,195	-	-	-	1,151	6,346
Legal and accounting	-	42,267	-	-	-	17,181	59,448
Commissioners' compensation	-	22,157	-	-	-	4,843	27,000
Maintenance and repairs	-	69,797	-	-	-	28,436	98,233
Meter readings and testing	-	11,964	-	-	-	2,592	14,556
Truck and travel	-	13,575	-	-	-	5,970	19,545
Office and miscellaneous	190	45,586	-	-	524	10,721	57,021
Payroll	-	189,576	-	-	-	92,082	281,658
Employee insurance, benefits and taxes	-	64,567	-	-	-	13,046	77,613
Insurance	-	16,492	-	-	-	3,621	20,113
Utilities and telephone	-	21,192	-	-	-	11,308	32,500
Bad debts	3,925	-	-	-	-	11,993	15,918
	<u>4,115</u>	<u>1,815,331</u>	<u>-</u>	<u>-</u>	<u>524</u>	<u>525,508</u>	<u>2,345,478</u>
Total expenditures							
Excess (deficiency) of revenues over expenditures	2,289,000	(1,814,612)	-	-	27,961	(50,401)	451,948
Depreciation expense					426,770	207,005	633,775
Net change in net assets from operations	<u>2,289,000</u>	<u>(1,814,612)</u>	<u>-</u>	<u>-</u>	<u>(398,809)</u>	<u>(257,406)</u>	<u>(181,827)</u>

See accompanying notes to financial statements.

JESSAMINE SOUTH ELKHORN WATER DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
For the Year Ended December 31, 2012

	Revenue Fund	Operations and Maintenance Fund	Depreciation Fund	Reserve Fund	Construction Fund	Sewer Fund	Totals
OTHER FINANCING SOURCES(USES):							
Interfund transfers in (out)	\$ (2,353,913)	\$ 1,865,629	\$ 4	\$ 14,012	\$ 370,817	\$ 103,451	-
Loss(gain) on disposal of capital assets	-	-	-	-	-	-	-
Interest income	1,174	80	299	254	839	301	2,947
Interest expense	(40)	-	-	-	(143,643)	(90,291)	(233,974)
Connection fees	-	-	-	-	25,750	106,411	132,161
Capital contributions from developers	-	-	-	-	-	-	-
Capital contributions from grants	-	-	-	-	73,997	37,480	111,477
Total Other Financings Sources (Uses)	<u>(2,352,779)</u>	<u>1,865,709</u>	<u>303</u>	<u>14,266</u>	<u>327,760</u>	<u>157,352</u>	<u>12,611</u>
 Change in net assets	 (63,779)	 51,097	 303	 14,266	 (71,049)	 (100,054)	 (169,216)
Net assets, beginning of year	489,030	51,764	14,363	160,846	8,282,992	6,786,465	15,785,460
 Net assets, end of year	 <u>\$ 425,251</u>	 <u>\$ 102,861</u>	 <u>\$ 14,666</u>	 <u>\$ 175,112</u>	 <u>\$ 8,211,943</u>	 <u>\$ 6,686,411</u>	 <u>\$ 15,616,244</u>

See accompanying notes to financial statements.

JESSAMINE SOUTH ELKHORN WATER DISTRICT
WATER AND SEWER DIVISIONS COMBINED
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
For the Year Ended December 31, 2012

	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
OPERATING REVENUES:			
Water, and sewer service charges:			
Water	\$ 2,300,174	\$ 2,264,245	\$ (35,929)
Sewer	<u>489,142</u>	<u>455,330</u>	<u>(33,812)</u>
Total Water, and Sewer Service Charges	2,789,316	2,719,575	(69,741)
Penalties and service charges	52,684	48,176	(4,508)
Other	<u>1,476</u>	<u>29,675</u>	<u>28,199</u>
 Total Operating Revenues	 <u>2,843,476</u>	 <u>2,797,426</u>	 <u>(46,050)</u>
 OPERATING EXPENSES:			
Costs of sales			
Water purchased	1,110,698	1,266,710	156,012
Sewer usage	<u>170,213</u>	<u>248,227</u>	<u>78,014</u>
Total Cost of Sales	<u>1,280,911</u>	<u>1,514,937</u>	<u>234,026</u>
 Operations and Maintenance			
Compensation			
Gross wages	256,201	281,658	25,457
Meter reading	15,089	14,556	(533)
Commissioner salaries	30,200	27,000	(3,200)
Payroll taxes	20,658	25,660	5,002
Employee insurance	35,667	37,965	2,298
Retirement expenses	<u>10,918</u>	<u>13,988</u>	<u>3,070</u>
Total Compensation	<u>368,733</u>	<u>400,827</u>	<u>32,094</u>
 Contractual Services			
Engineering water	41,461	46,253	4,792
Engineering sewer	82,965	74,337	(8,628)
Accounting	12,076	9,674	(2,402)
Legal water	21,100	34,319	13,219
Legal sewer	13,430	15,455	2,025
Contractual other expenses	<u>5,733</u>	<u>6,346</u>	<u>613</u>
Total Contractual Services	<u>176,765</u>	<u>186,384</u>	<u>9,619</u>

See accompanying notes to financial statements.

JESSAMINE SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (Continued)
For the Year Ended December 31, 2012

	Amended Budget	Actual	Over (Under) Budget
Materials and supplies			
Office expense water	\$ 41,813	\$ 30,683	\$ (11,130)
Office expense sewer	13,160	10,721	(2,439)
Other expenses	8,804	15,617	6,813
Repairs and maintenance water	73,655	69,797	(3,858)
Repairs and maintenance sewer	46,340	28,436	(17,904)
Travel and vehicle	15,681	19,545	3,864
Total Materials and Supplies	<u>199,453</u>	<u>174,799</u>	<u>(24,654)</u>
Utilities, Insurance and Other			
Utilities	26,960	27,486	526
Communications	4,818	5,014	196
Insurance water	31,706	16,492	(15,214)
Insurance sewer	6,747	3,621	(3,126)
Bad debt	13,465	15,918	2,453
Total Utilities, Insurance and Other	<u>83,696</u>	<u>68,531</u>	<u>(15,165)</u>
Depreciation Expense	<u>115,000</u>	<u>633,775</u>	<u>518,775</u>
Total Operating Expenses	<u>2,224,558</u>	<u>2,979,253</u>	<u>754,695</u>
Total Operating Revenues Less Expenses	<u>618,918</u>	<u>(181,827)</u>	<u>(800,745)</u>
NON-OPERATING REVENUES (EXPENSES):			
Water and sewer tap fees	47,942	132,161	84,219
Capital contributions from grants	0	111,477	111,477
Income from investments	4,104	2,947	(1,157)
Interest & amortization expense	(181,110)	(233,974)	(52,864)
Total non-operating revenues(expenses)	<u>(129,064)</u>	<u>12,611</u>	<u>141,675</u>
CHANGE IN NET ASSETS	<u>489,854</u>	<u>\$ (169,216)</u>	<u>\$ (659,070)</u>
Other budgeted cash flows			
Capital construction	(74,940)		
Meters and other capital purchases	(21,683)		
Debt service principal	(193,576)		
	<u>(290,199)</u>		
Budgeted increase in net assets	<u>\$ 199,655</u>		

See accompanying notes to financial statements.

JESSAMINE SOUTH ELKHORN WATER DISTRICT-WATER DIVISION
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
For the Year Ended December 31, 2012

	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
OPERATING REVENUES:			
Water service charges	\$ 2,300,174	\$ 2,264,245	\$ (35,929)
Penalties	24,291	20,660	(3,631)
Service charges	4,702	7,739	3,037
Other	<u>1,420</u>	<u>29,675</u>	<u>28,255</u>
Total Operating Revenues	<u>2,330,587</u>	<u>2,322,319</u>	<u>(8,268)</u>
OPERATING EXPENSES:			
Costs of sales			
Water purchased	<u>1,110,698</u>	<u>1,266,710</u>	<u>156,012</u>
Total Cost of Sales	<u>1,110,698</u>	<u>1,266,710</u>	<u>156,012</u>
Operations and Maintenance			
Compensation			
Gross wages	179,828	189,576	9,748
Meter reading	12,213	11,964	(249)
Commissioner salaries	28,542	22,157	(6,385)
Payroll taxes	17,170	21,917	4,747
Employee insurance	27,191	31,150	3,959
Retirement expenses	<u>8,940</u>	<u>11,500</u>	<u>2,560</u>
Total Compensation	<u>273,884</u>	<u>288,264</u>	<u>14,380</u>
Contractual Services			
Engineering	41,461	46,253	4,792
Accounting	11,299	7,948	(3,351)
Legal	21,100	34,319	13,219
Contractual other expenses	<u>5,536</u>	<u>5,195</u>	<u>(341)</u>
Total Contractual Services	<u>79,396</u>	<u>93,715</u>	<u>14,319</u>

See accompanying notes to financial statements.

JESSAMINE SOUTH ELKHORN WATER DISTRICT-WATER DIVISION
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (Continued)
For the Year Ended December 31, 2012

	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Materials and supplies			
Office expense	\$ 41,813	\$ 30,683	\$ (11,130)
Other expenses	8,705	15,617	6,912
Repairs and maintenance	73,655	69,797	(3,858)
Travel and vehicle	9,932	13,575	3,643
Total Materials and Supplies	<u>134,105</u>	<u>129,672</u>	<u>(4,433)</u>
Utilities, Insurance and Other			
Utilities	14,264	17,071	2,807
Communications	4,818	4,121	(697)
Insurance	31,706	16,492	(15,214)
Bad debt	4,147	3,925	(222)
Total Utilities, Insurance and Other	<u>54,935</u>	<u>41,609</u>	<u>(13,326)</u>
Depreciation Expense	<u>100,000</u>	<u>426,770</u>	<u>326,770</u>
Total Operating Expenses	<u>1,753,018</u>	<u>2,246,740</u>	<u>493,722</u>
Total Operating Revenues Less Expenses	<u>577,569</u>	<u>75,579</u>	<u>(501,990)</u>
NON-OPERATING REVENUES (EXPENSES):			
Water connection and tap fees	21,000	25,750	4,750
Capital contributions from grants		73,997	73,997
Income from investments	3,641	2,646	(995)
Interest & amortization expense	(141,504)	(143,683)	(2,179)
Transfers (to) from other funds		(103,451)	(103,451)
Total non-operating revenues(expenses)	<u>(116,863)</u>	<u>(144,741)</u>	<u>(27,878)</u>
CHANGE IN NET ASSETS	<u>460,706</u>	<u>\$ (69,162)</u>	<u>\$ (529,868)</u>
Other budgeted cash flows			
Capital construction	(63,000)		
Meters and other capital purchases	(21,683)		
Debt service principal	(193,576)		
	<u>(278,259)</u>		
Budgeted increase in net assets	<u>\$ 182,447</u>		

See accompanying notes to financial statements.

JESSAMINE SOUTH ELKHORN WATER DISTRICT-SEWER DIVISION
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
For the Year Ended December 31, 2012

	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
OPERATING REVENUES:			
Sewer service charges:	\$ 489,142	\$ 455,330	\$ (33,812)
Penalties	14,444	10,592	(3,852)
Service charges	9,247	9,185	(62)
Other	56		(56)
	<u>512,889</u>	<u>475,107</u>	<u>(37,782)</u>
OPERATING EXPENSES:			
Costs of sales			
Sewer usage	170,213	248,227	78,014
Total Cost of Sales	<u>170,213</u>	<u>248,227</u>	<u>78,014</u>
Operations and Maintenance			
Compensation			
Gross wages	76,373	92,082	15,709
Meter reading	2,876	2,592	(284)
Commissioner salaries	1,658	4,843	3,185
Payroll taxes	3,488	3,743	255
Employee insurance	8,476	6,815	(1,661)
Retirement expenses	1,978	2,488	510
Total Compensation	<u>94,849</u>	<u>112,563</u>	<u>17,714</u>
Contractual Services			
Engineering	82,965	74,337	(8,628)
Accounting	777	1,726	949
Legal	13,430	15,455	2,025
Contractual other expenses	197	1,151	954
Total Contractual Services	<u>97,369</u>	<u>92,669</u>	<u>(4,700)</u>

See accompanying notes to financial statements.

JESSAMINE SOUTH ELKHORN WATER DISTRICT-SEWER DIVISION
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (Continued)
For the Year Ended December 31, 2012

	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Materials and supplies			
Office expense	\$ 13,160	\$ 10,721	\$ (2,439)
Other expenses	99		(99)
Repairs and maintenance	46,340	28,436	(17,904)
Travel and vehicle	5,749	5,970	221
Total Materials and Supplies	<u>65,348</u>	<u>45,127</u>	<u>(20,221)</u>
Utilities, Insurance and Other			
Utilities	12,696	10,415	(2,281)
Communications	0	893	893
Insurance	6,747	3,621	(3,126)
Bad debt	9,318	11,993	2,675
Total Utilities, Insurance and Other	<u>28,761</u>	<u>26,922</u>	<u>(1,839)</u>
Depreciation Expense	<u>15,000</u>	<u>207,005</u>	<u>192,005</u>
Total Operating Expenses	<u>471,540</u>	<u>732,513</u>	<u>260,973</u>
Total Operating Revenues Less Expenses	<u>41,349</u>	<u>(257,406)</u>	<u>(298,755)</u>
NON-OPERATING REVENUES (EXPENSES):			
Sewer tap fees	26,942	106,411	79,469
Capital contributions from grants		37,480	37,480
Income from investments	463	301	(162)
Interest & amortization expense	(39,606)	(90,291)	(50,685)
Transfers (to) from other funds		103,451	103,451
Total non-operating revenues(expenses)	<u>(12,201)</u>	<u>157,352</u>	<u>169,553</u>
CHANGE IN NET ASSETS	<u>29,148</u>	<u>\$ (100,054)</u>	<u>\$ (129,202)</u>
Other budgeted cash flows			
Capital construction	<u>(11,940)</u>		
	<u>(11,940)</u>		
Budgeted increase in net assets	<u>\$ 17,208</u>		

See accompanying notes to financial statements.



Leta G. Mattingly, CPA
Nancy J. Clark, CPA
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(1955-2002)

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**Report on Compliance and Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
With Government Auditing Standards**

The Board of Commissioners
Jessamine South Elkhorn Water District
Water and Sewer Divisions
Nicholasville, Kentucky

We have audited the financial statements of the business-type activities of the Jessamine South Elkhorn Water District, Water and Sewer Divisions (District), as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 22, 2012. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Jessamine South Elkhorn Water District, Water and Sewer Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the District's internal control.

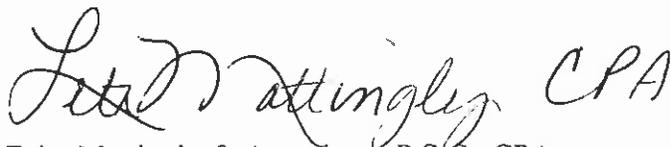
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District'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*.

We noted certain matters that we reported to management of the District in a separate letter dated March 5, 2013.

This report is intended solely for the information and use of management, the audit committee, District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Peter Mattingly CPA". The signature is written in a cursive style.

Fain, Mattingly & Associates, P.S.C., CPAs

March 5, 2013