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**JONATHAN CREEK  
WATER DISTRICT  
AUDIT REPORT**

*December 31, 2012*

# AUDIT REPORT

*of the*

# JONATHAN CREEK WATER DISTRICT

*For the fiscal year ended*

**DECEMBER 31, 2012**

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**KIM HAM**

**CERTIFIED PUBLIC ACCOUNTANT**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
JONATHAN CREEK WATER DISTRICT  
Benton, Kentucky

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the Jonathan Creek Water District, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### *Opinions*

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Jonathan Creek Water District as of December 31, 2012 and 2011, and the changes in financial position, and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audits of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

My audit was conducted for the purpose of forming opinions on the basic financial statements of Jonathan Creek Water District. The supplementary information on pages 18 through 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated March 29, 2013, on my consideration of the Jonathan Creek Water District's internal control over financial reporting and on my 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 my 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 Jonathan Creek Water District's internal control over financial reporting and compliance.



Benton, Kentucky

March 29, 2013

JONATHAN CREEK WATER DISTRICT  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2012

The management of Jonathan Creek Water District (JCWD) provides readers of our financial statements this narrative that is an overview and analysis of the district's performance for the year ended December 31, 2012. It is to be read in conjunction with the financial statements which begin on page 8.

**FINANCIAL HIGHLIGHTS**

JCWD's net assets increased by \$215,195 as a result of this year's operations.

Operating revenues increased by \$39,117 (4.5%).

Operating expenses, excluding depreciation, decreased by \$24,346 (4.6%).

Net income before capital contributions increased by \$69,765 (48.0%).

**HOW TO USE THE ANNUAL REPORT**

This annual report is divided into sections. You will find an introduction section, a financial section and a section providing notes and supplemental information that will help you to better understand the financial statements.

**THE STATEMENT OF NET ASSETS**

The Statement of Net Assets includes all of JCWD's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). The difference between assets and liabilities is reported as net assets. The statement of net assets is useful in evaluating the liquidity and financial position of the district.

**THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

The Statement of Revenues, Expenses and Changes in Net Assets identifies the revenues generated and expenses incurred during the reporting year. This report identifies whether or not the district is covering its costs through its customer rate structure and non-recurring charges.

**THE STATEMENT OF CASH FLOWS**

The Statement of Cash Flows provides information relating to JCWD's cash receipts and cash expenditures during the reporting year. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. It helps the reader of the annual report to determine where the cash came from, where the cash was used and what the change in the cash balance was during the year.

JONATHAN CREEK WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012

**FINANCIAL INFORMATION**

Condensed Statement of Net Assets

	<u>CY 2012</u>	<u>CY2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	\$ 276,585	\$ 286,084	\$ (9,499)	(3.3)
Restricted Assets	28,771	28,236	535	1.9
Capital Assets	<u>3,519,260</u>	<u>3,562,537</u>	<u>(43,277)</u>	<u>(1.2)</u>
Total Assets	<u>\$ 3,824,616</u>	<u>\$ 3,876,857</u>	<u>\$ (52,241)</u>	<u>(1.3)</u>
Current Liabilities	\$ 287,540	\$ 233,905	\$ 53,635	2.3
Long-term Liabilities	505,048	808,763	(303,715)	(37.6)
Deferred Credits	<u>37,605</u>	<u>54,961</u>	<u>(17,356)</u>	<u>(31.6)</u>
Total Liabilities	<u>\$ 830,193</u>	<u>\$ 1,097,629</u>	<u>\$ (267,436)</u>	<u>(24.4)</u>
Invested in Capital Assets net of related debt	\$ 2,722,152	\$ 2,508,941	\$ 213,211	8.5
Restricted Assets, net	17,083	16,921	162	.1
Unrestricted Assets	<u>255,188</u>	<u>253,366</u>	<u>1,822</u>	<u>.7</u>
Net Assets	<u>\$ 2,994,423</u>	<u>\$ 2,779,228</u>	<u>\$ 215,195</u>	<u>7.7</u>

The KIA Loan Agreement was re-negotiated during a prior year and the new agreement does not require any restriction of assets for debt service reserve. Monthly loan payments are being automatically withdrawn. A small portion of the district's assets is customer deposits and this amount is restricted to help insure collection of unpaid customer account balances.

JONATHAN CREEK WATER DISTRICT  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 December 31, 2012

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>CY2012</u>	<u>CY2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenue	\$ 910,678	\$ 871,561	\$ 39,117	4.5
Non-operating Revenue	<u>18,464</u>	<u>19,064</u>	<u>(600)</u>	<u>(3.1)</u>
Total Revenue	<u>\$ 929,142</u>	<u>\$ 890,625</u>	<u>\$ 38,517</u>	<u>4.3</u>
Operating Expenses	\$ 663,853	\$ 683,680	\$ (19,827)	(2.9)
Non-operating Expenses	<u>50,094</u>	<u>61,515</u>	<u>(11,421)</u>	<u>(18.6)</u>
Total Expenses	<u>\$ 713,947</u>	<u>\$ 745,195</u>	<u>\$ (31,248)</u>	<u>(4.2)</u>
Change in Net Assets	\$ 215,195	\$ 145,430	\$ 69,765	48.0
Beginning Net Assets	<u>2,779,228</u>	<u>2,633,798</u>	<u>145,430</u>	<u>5.5</u>
Ending Net Assets	<u>\$ 2,994,423</u>	<u>\$ 2,779,228</u>	<u>\$ 215,195</u>	<u>7.7</u>

Operating revenues increased from the previous year due to an increase in gallons sold to customers by 5%. Operating expenses decreased from the prior year primarily due to lower expenses for materials and supplies. Although salaries and benefits increased due to hiring an additional employee during 2011, outside services decreased since the meter reading is now being done by the employees.

**CAPITAL ASSETS AND LONG-TERM DEBT**

JCWD's expenditures for plant, lines and other facilities were \$120,344 in CY 2012, compared to \$111,954 in CY 2011. Capital expenditures are still high due to the ongoing water project.

Debt payments were made as scheduled throughout the year on all notes.

JONATHAN CREEK WATER DISTRICT  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2012

**BUDGETARY CONTROLS**

JCWD operates its general activities in accordance with a budget adopted by its Board of Commissioners.

Statement of Revenues, Expenses, and Changes in Net Assets to Budget  
For the Twelve Months Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Charges for services	\$ 868,844	\$ 900,000	\$ (31,156)	(3.5)
Penalties, late charges, and other	41,834	52,000	(10,166)	(19.6)
Total Operating Revenues	<u>910,678</u>	<u>952,000</u>	<u>(41,322)</u>	<u>(4.3)</u>
Operating Expenses:				
Salaries	195,609	166,000	29,609	17.8
Employee pension and benefits	81,279	62,000	19,279	31.1
Fuel and power for pumping	66,383	70,000	(3,617)	(5.2)
Materials and supplies	57,954	140,000	(82,046)	(58.6)
Chemicals	6,956	8,000	(1,044)	(13.1)
Transportation & training	24,989	16,000	8,989	56.2
Depreciation	163,621	140,000	23,621	16.9
Insurance	23,299	24,000	(701)	(2.9)
Professional fees & outside services	21,303	66,000	(44,697)	(67.7)
Dues	1,071	0	1,071	N/A
Utility Regulatory Expense	1,529	1,500	29	1.9
Payroll taxes	13,229	13,000	229	1.8
Equipment rent	0	1,000	(1,000)	(100.0)
Advertising	821	1,000	(179)	(17.9)
Loan service expense	1,178	4,000	(2,822)	(70.6)
Bad debt expense	4,255	3,000	1,255	41.8
Miscellaneous	377	2,000	(1,623)	(81.2)
Total operating expenses	<u>663,853</u>	<u>717,500</u>	<u>(53,647)</u>	<u>(7.5)</u>
Income from operations	<u>246,825</u>	<u>234,500</u>	<u>12,325</u>	<u>5.3</u>
Non-operating revenues (expenses):				
Interest income	1,108	6,000	(4,892)	(81.5)
Interest and bond discount expense	(50,094)	(83,230)	33,136	39.8
Amortization of debt discount and expense	17,356	17,000	356	2.1
Total non-operating revenues (expenses)	<u>(31,630)</u>	<u>(60,230)</u>	<u>28,600</u>	<u>47.5</u>
Net income (loss) before contributions	<u>215,195</u>	<u>174,270</u>	<u>40,925</u>	<u>23.5</u>
Change in net assets	215,195	174,270	40,925	23.5
Net assets January 1, 2012	<u>2,779,228</u>	<u>2,779,228</u>	<u>0</u>	<u>0.0</u>
Net assets December 31, 2012	<u>\$ 2,994,423</u>	<u>\$ 2,953,498</u>	<u>\$ 40,925</u>	<u>1.4</u>

JONATHAN CREEK WATER DISTRICT  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2012

**OTHER SIGNIFICANT MATTERS**

Jonathan Creek Water District has an ongoing program to replace and upsize their existing water lines. The Jonathan Creek Water District is also striving to lay water lines to the customers within the boundaries of the water district that are currently not being served. The water district has not reached a mature growth status as it is not utilizing the full capacity of the water plant. We at Jonathan Creek Water District work around the clock to provide top quality water to every tap.

Questions or comments regarding these financial reports may be directed to Matt York, Superintendent at 270-354-8474.

JONATHAN CREEK WATER DISTRICT

STATEMENT OF NET ASSETS

December 31, 2012 and 2011

ASSETS:	2012	2011
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 167,623	\$ 202,158
Customer accounts receivable, less allowance for doubtful accounts of \$5,934	63,877	52,433
Other receivables	6,176	0
Materials & supplies inventory	36,495	29,036
Prepaid expenses	2,414	2,457
<b>Total Current Assets</b>	<b>276,585</b>	<b>286,084</b>
<b>Restricted Assets:</b>		
Cash and cash equivalents	28,771	28,236
<b>Total Restricted Assets</b>	<b>28,771</b>	<b>28,236</b>
<b>Noncurrent Assets:</b>		
Capital assets	6,902,243	6,781,899
Less: Accumulated depreciation	(3,382,983)	(3,219,362)
<b>Total Noncurrent Assets</b>	<b>3,519,260</b>	<b>3,562,537</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,824,616</b>	<b>\$ 3,876,857</b>
<b>LIABILITIES:</b>		
<b>Current Liabilities (payable from current assets):</b>		
Accounts payable	\$ 11,659	\$ 22,323
Accrued interest payable	3,071	3,995
Accrued liabilities	9,738	10,395
Current portion of long-term debt	251,622	185,877
<b>Total Current Liabilities (payable from current assets)</b>	<b>276,090</b>	<b>222,590</b>
<b>Current Liabilities (payable from restricted assets):</b>		
Customer deposits	11,450	11,315
<b>Total Current Liabilities (payable from restricted assets)</b>	<b>11,450</b>	<b>11,315</b>
<b>Noncurrent Liabilities:</b>		
Note payable, less current maturities	505,048	808,763
<b>Total Noncurrent Liabilities</b>	<b>505,048</b>	<b>808,763</b>
<b>Deferred Credits:</b>		
Gain on refinancing	37,605	54,961
<b>TOTAL LIABILITIES</b>	<b>\$ 830,193</b>	<b>\$ 1,097,629</b>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	\$ 2,722,152	\$ 2,508,941
Restricted for:		
Customer deposits	17,083	16,921
Unrestricted		
Unreserved	255,188	253,366
<b>TOTAL NET ASSETS</b>	<b>\$ 2,994,423</b>	<b>\$ 2,779,228</b>

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
For the Years Ended December 31, 2012 and 2011

	2012	2011
<b>OPERATING REVENUES:</b>		
Water Sales, net	\$ 886,705	\$ 853,670
Other service revenue	23,973	17,891
<b>Total Operating Revenues</b>	910,678	871,561
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	265,917	237,987
Utilities	66,383	69,955
Maintenance and supplies	57,954	75,371
Chemicals	6,956	8,780
Transportation and training	24,989	22,043
Depreciation expense	163,621	159,102
Insurance expense	23,299	23,361
Professional fees & outside services	21,303	52,609
Utility regulatory assessment	1,529	1,402
Dues	1,071	1,072
Commissioners' fees	24,200	24,200
Advertising	821	1,500
Loan service fees	1,178	1,532
Miscellaneous	377	543
Bad debt expense	4,255	4,223
<b>Total Operating Expenses</b>	663,853	683,680
Operating Income (Loss)	246,825	187,881
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest and dividend income	1,108	1,708
Amortization of debt discount and expense	17,356	17,356
Interest expense	(50,094)	(61,515)
<b>Total Non-operating Revenues (Expenses)</b>	(31,630)	(42,451)
Net income (loss) before contributions	215,195	145,430
Change in net assets	215,195	145,430
<b>Net Assets, beginning of year</b>	2,779,228	2,633,798
<b>Net Assets, end of year</b>	\$ 2,994,423	2,779,228

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
For the Years Ended December 31, 2012 and 2011

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	2012	2011
Cash received from:		
Customers	\$ 870,838	\$ 868,179
Other service revenue	23,973	17,891
 Cash paid for:		
Salaries and benefits	(266,271)	(236,062)
Utilities	(71,672)	(70,075)
Maintenance and supplies	(72,406)	(68,853)
Chemicals	(8,114)	(7,622)
Transportation expenses	(25,775)	(19,250)
Insurance	(23,256)	(23,276)
Professional Fees & outside services	(23,872)	(52,368)
Dues, Taxes and licenses	(2,600)	(2,474)
Commissioners' fees	(24,200)	(24,200)
Advertising	(866)	(1,455)
Loan service fees	(1,178)	(1,532)
Miscellaneous	(377)	(543)
<b>Net cash provided by (used in) operating activities</b>	374,224	378,360
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(120,344)	(111,954)
Principal paid on bonds and other long-term debt	(237,970)	(226,333)
Interest paid on bonds and other long-term debt	(51,018)	(62,207)
<b>Net cash provided by (used in) capital and related financing activities</b>	(409,332)	(400,494)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest earnings	1,108	1,708
<b>Net cash provided by (used in) investing activities</b>	1,108	1,708
Net Increase (Decrease) in Cash and Cash Equivalents	(34,000)	(20,426)
Cash & Cash Equivalents - January 1, 2012	230,394	250,820
Cash & Cash Equivalents - December 31, 2012	\$ 196,394	\$ 230,394
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 246,825	\$ 187,881
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	163,621	159,102
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(11,444)	16,840
Decrease (increase) in other receivables	(6,176)	0
Decrease (increase) in materials & supplies inventory	(7,459)	13,783
Decrease (increase) in prepaid expenses	43	85
Increase (decrease) in accounts payable	(10,664)	(3,148)
Increase (decrease) in accrued liabilities	(657)	2,097
Increase (decrease) in customer deposits	135	1,720
<b>Net cash provided by operating activities</b>	\$ 374,224	\$ 378,360

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Jonathan Creek Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, the Jonathan Creek Water District has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The Jonathan Creek Water District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

These financial statements follow the provisions of GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and related standards. These new standards adopted effective January 1, 2006 provided for changes in terminology; recognition of contributions in the Statement of Revenues, Expenses and Changes in Net Assets; including of a management's discussion and analysis as supplementary information; and other changes. The more significant of Jonathan Creek Water District's accounting policies are described hereinafter.

**A. Reporting Entity**

The Jonathan Creek Water District is a Class B water district and was established on October 12, 1968 pursuant to Chapter 74 of the Kentucky Revised Statutes. The District provides potable water service to the residents of southeastern Marshall County in Kentucky. The District is governed by a Board which consists of five commissioners.

**B. Basis of Accounting**

The District is accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of the District are included on the statement of net assets. Total net assets are segregated into amounts invested in capital assets, net of related debt, restricted for customer deposits, and unrestricted. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

JONATHAN CREEK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Accounting (Continued)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's utilities are charges to the customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**C. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Jonathan Creek Water District considers all highly liquid debt instruments purchased with original maturities of six months or less from the date of acquisition to be cash equivalents.

**D. Contributed Capital and Construction Grants**

Construction and acquisition of water plant, lines and other facilities are financed in part by governmental grants and contributions in aid of construction from property owners and developers. In the past, the accumulated amount of contributions in aid of construction was listed as a separate portion of capital. Under GASB 34, current year contributions will be listed as an increase in net assets after net income or loss before contributions. The equity accounts previously used for these contributions and retained earnings are now combined and uses the term "net assets".

**E. Capital Assets**

Capital Assets, which include plant, water lines, equipment, and other facilities, are recorded at historical cost. Capital assets are defined by the Jonathan Creek Water District as assets with an estimated useful life in excess of one year. It is the District's policy to depreciate the costs of these assets over their estimated useful lives on a straight-line basis.

Estimated useful lives on depreciable assets are as follows:

Utility plant	20-50 years
Office and other equipment	5-20 years
Vehicles	5 years

Costs incurred for capital construction and acquisition are carried in construction in progress until disposition or completion of the related projects. Costs relating to projects not pursued are expensed, while costs relating to completed projects are capitalized as plant, lines and other facilities.

JONATHAN CREEK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Capitalized Interest**

Interest capitalized on projects funded from bond proceeds is recorded as the difference between the interest costs of the borrowing less interest earned on undisbursed invested proceeds during the construction period. Interest is not capitalized on project costs that are reimbursed by contributions of capital from government, property owners and developers.

**G. Debt Discount and Expense**

Debt discount and expense is amortized over the life of the related debt.

**H. Compensated Absences**

Vacation time must be used during the calendar year earned and cannot be carried over to a subsequent year. Sick time is not payable upon termination or retirement. Because of this, there is no liability recorded for compensated absences.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

State statutes authorize the District to invest in obligations of the United States and its agencies and instrumentalities; bond or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky and insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to the District.

At December 31, 2012, the carrying amount of the District's deposits was \$196,394 and the bank balance was \$199,883. The entire bank balance was covered by federal depository insurance.

**NOTE 3 - RESTRICTED CASH AND EQUIVALENTS**

The District has an escrow account and a certificate of deposit established for customer deposits. The District requires a refundable deposit at the time a new customer is connected to the water system. These receipts are deposited into the escrow account until such time as the customer is disconnected from the system. If the customer is current with all water bills, the deposit is returned to the customer from the escrow account. If the customer is past due on any water bill, the deposit is first applied to the bill, with any remainder being refunded to the customer from the escrow account. The amount in the escrow account and certificate of deposit is \$17,083 over the amount in the liability account on the ledger.

JONATHAN CREEK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012

**NOTE 4 - CAPITAL ASSETS**

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

	Balance 12/31/11	Additions	Dispositions	Balance 12/31/12
Historical Cost				
Organization	\$ 5,702	\$ 0	\$ 0	\$ 5,702
Land and land rights	16,225	0	0	16,225
Structures & improvements	23,413	17,573	0	40,986
Wells & springs	91,457	0	0	91,457
Pumping equipment	190,734	3,909	0	194,643
Water treatment equipment	371,160	0	0	371,160
Distribution reservoirs & standpipes	693,735	0	0	693,735
Transmission & distribution mains	4,523,492	38,197	0	4,561,689
Services	59,777	0	0	59,777
Meters & meter installations	458,253	36,455	0	494,708
Hydrants	76,786	1,655	0	78,441
Office furniture and equipment	16,822	0	0	16,822
Transportation equipment	22,287	19,450	0	41,737
Tools, shop & garage equipment	5,186	3,105	0	8,291
Power operated equipment	59,379	0	0	59,379
Communication equipment	1,958	0	0	1,958
Miscellaneous equipment	165,533	0	0	165,533
Total	<u>\$ 6,781,899</u>	<u>\$ 120,344</u>	<u>\$ 0</u>	<u>\$ 6,902,243</u>

JONATHAN CREEK WATER DISTRICT  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 DECEMBER 31, 2012

**NOTE 4 - CAPITAL ASSETS (Continued)**

Depreciation on these assets and amounts in accumulated depreciation were as follows:

	Balance 12/31/11	Additions	Dispositions	Balance 12/31/12
Accumulated depreciation:				
Organization	\$ 5,702	\$ 0	\$ 0	\$ 5,702
Land & land rights	5,061	124	0	5,185
Structures & improvements	5,437	1,037	0	6,474
Wells & springs	39,424	1,830	0	41,254
Pumping equipment	137,255	7,882	0	145,137
Water treatment equipment	299,291	7,581	0	306,872
Distribution reservoirs & standpipes	561,989	9,826	0	571,815
Transmission & distribution mains	1,560,049	89,239	0	1,649,288
Services	45,385	1,195	0	46,580
Meters & meter installations	271,621	33,146	0	304,767
Hydrants	54,916	3,807	0	58,723
Office furniture and equipment	15,192	204	0	15,396
Transportation equipment	22,287	1,945	0	24,232
Tools, shop & garage equipment	3,494	670	0	4,164
Power operated equipment	39,059	2,389	0	41,448
Communication equipment	1,958	0	0	1,958
Miscellaneous equipment	151,242	2,746	0	153,988
<b>Total</b>	<b>\$ 3,219,362</b>	<b>\$ 163,621</b>	<b>\$ 0</b>	<b>\$ 3,382,983</b>

**NOTE 5 - LONG-TERM LIABILITIES**

At year end, the District's long-term liabilities consisted of a loan from the Kentucky Infrastructure Authority (KIA) and GMAC loans. The GMAC loans are payable annually and all carry an interest rate of 5%. One is payable at \$69,349 each January 1 with a final maturity date of January 1, 2018. The second is payable at \$8,420 each September 23 with a final maturity date of September 23, 2018. The KIA loan is payable monthly at varying amounts and at interest rates varying from 3.16% to 5.29%.

JONATHAN CREEK WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2012

**NOTE 5 - LONG-TERM LIABILITIES (Continued)**

The activity of long-term debt for the year was as follows:

	Balance 12/31/11	Additions	Retirements	Balance 12/31/12	Due Within One Year
Berkadia loans	\$ 391,239	\$ 0	\$ 58,210	\$ 333,029	\$ 61,118
KIA loan	603,401	0	179,760	423,641	190,504
Total	<u>\$ 994,640</u>	<u>\$ 0</u>	<u>\$ 237,970</u>	<u>\$ 756,670</u>	<u>\$ 251,622</u>

Principal and interest requirements to retire the District's long-term obligations were as follows:

Year Ended December 31	Interest	Service Fee	Principal	Total
2013	\$ 37,814	\$ 824	\$ 251,622	\$ 290,260
2014	25,517	395	263,682	289,594
2015	11,732	34	101,010	112,776
2016	7,018	0	70,751	77,769
2017	3,480	0	64,702	68,182
2018	244	0	4,903	5,147
	<u>\$ 85,805</u>	<u>\$ 1,253</u>	<u>\$ 756,670</u>	<u>\$ 843,728</u>

**NOTE 6 - RETIREMENT PLAN**

The District's employees participate in the County Employees Retirement System (CERS) which is a cost-sharing, multiple-employer defined benefit public employee retirement system administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. The CERS provides for retirement, disability and death benefits to plan members and beneficiaries. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the CERS. That report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Plan members are required to contribute 5% of creditable compensation and the District is required to contribute at an actuarially determined rate, which was 18.96% until July, 2012, at which time the rate was increased to 19.55%.

The contribution requirements of plan members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to the CERS for the years ended December 31, 2012, 2011, and 2010 were \$42,434, \$37,474, and \$30,806 respectively, equal to the required contributions for each year.

JONATHAN CREEK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2012

**NOTE 7 - ESTIMATES**

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

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District contracts with KLC Insurance Services (a local government risk pool) for insurance coverage for workers compensation. Other risks are covered by the purchase of commercial insurance. KLC Insurance Services was formed for the primary purpose of managing and funding third-party liability claims against its members. As a member of KLC Insurance Services, the District is required to make annual contributions sufficient to produce the funds necessary to fund the administrative expenses and the claims and claims expenses, and any deficiencies in the cumulative reserves.

There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in recent years.

**NOTE 9 - SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated other events and transactions for potential recognition or disclosure through March 29, 2013, the date the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

JONATHAN CREEK WATER DISTRICT  
**SUPPLEMENTARY INFORMATION - OPERATING REVENUES**  
For the Year Ended December 31, 2012

<b>Charges for services:</b>	
Sales to residential customers	\$ 641,364
Sales to commercial customers	227,480
Service charges, reconnect fees & miscellaneous	<u>23,973</u>
<b>Net charges for services</b>	892,817
Penalties and late charges	<u>17,861</u>
<b>Total Operating Revenues</b>	<u><u>\$ 910,678</u></u>

See independent auditor's report

JONATHAN CREEK WATER DISTRICT  
**SUPPLEMENTARY INFORMATION - OPERATING EXPENSES**  
 For the Year Ended December 31, 2012

**OPERATING EXPENSES:**

Source of Supply and Pumping Expense:

Operations:

Materials & supplies	\$ 1,702
	1,702

Maintenance:

Material & supplies	122
	122

Water Treatment Expense:

Operations:

Salaries and wages	37,153
Employee pension & benefits	18,226
Purchased power	66,383
Chemicals	6,956
Materials and supplies	4,384
Contractual services-water testing	3,633
	136,735

Transmission and Distribution Expense:

Operations:

Salaries & wages	53,170
Employee pension & benefits	22,427
Materials & supplies	27,809
Transportation expense	24,249
	127,655

Maintenance:

Materials & supplies	5,812
Contractual services	11,505
	17,317

Customer Accounts Expense:

Salaries and wages	55,840
Employee pension & benefits	27,003
Bad debt expense, net of recoveries	4,255
	87,098

See independent auditor's report

JONATHAN CREEK WATER DISTRICT  
**SUPPLEMENTARY INFORMATION - OPERATING EXPENSES**  
For the Year Ended December 31, 2012

**OPERATING EXPENSES:**

Administration and General Expense:	
Salaries and wages - employees	25,246
Salaries and wages - commissioners	24,200
Employee pensions & benefits	13,623
Materials and supplies - office	18,125
Contractual services - accounting	3,000
Contractual services - other	3,165
Ky Rural Water Assoc. membership dues	1,071
Insurance expense-general liability	790
Insurance expense-worker's compensation	3,241
Insurance expense-other	19,268
Training	740
Advertising	821
Utility Regulatory Assessment	1,529
Payroll taxes	13,229
Loan service fees	1,178
Miscellaneous	377
	<u>129,603</u>
 Depreciation Expense	 <u>163,621</u>
 <b>Total Operating Expenses</b>	 <b><u><u>\$ 663,853</u></u></b>

See independent auditor's report

**ADDITIONAL REPORT REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS***

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# KIM HAM

## CERTIFIED PUBLIC ACCOUNTANT

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TAXES ♦ BOOKKEEPING ♦ AUDITING ♦ PAYROLL ♦ CONSULTING

MEMBER,  
*American Institute  
of CPA's*  
♦  
MEMBER,  
*Kentucky Society  
of CPA's*

### 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*

To the Board of Commissioners  
**JONATHAN CREEK WATER DISTRICT**  
Benton, Kentucky

I 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 the Jonathan Creek Water District, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued my report thereon dated March 29, 2013.

#### **Internal Control Over Financial Reporting**

In planning and performing my audits of the financial statements, I considered the Jonathan Creek Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jonathan Creek Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Jonathan Creek Water District's internal control.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Jonathan Creek Water District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

A handwritten signature in black ink, appearing to read "Kim Stan". The signature is written in a cursive style with a horizontal line above the first name.

Benton, Kentucky  
March 29, 2013