

JESSAMINE COUNTY WATER DISTRICT #1
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

*ENDERLE BESTEN DIERUF, PLLC
CERTIFIED PUBLIC ACCOUNTANTS*

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Jessamine County Water District #1 (JCWD) board of commissioners presents the following management discussion and analysis (MDA) for the reader of the year end 2016 audited financial statements in order to offer additional insight and perspective into the financial position of the district.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplementary Information.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance.

The financial statements report information using accounting methods similar to those used by private sector companies. The financial statements include a Statement of Net Assets; a Statement of Activities and Changes in Net Assets; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Assets presents the financial position of the District and thus provides information about the nature and amount of resources and obligations at year-end. The Activities and Changes in Net Assets presents the results of the business activities over the course of the fiscal year and information as to how the Net Assets changed during the year. All changes in Net Assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow.

The Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event or when an obligation arises.

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Financial Summary

Net assets are the amount in which assets exceeds liabilities. Financial strength is considered to be greater when total net assets are increasing over time. Comparing net assets over time demonstrates how effectively management is achieving goals with their financial resources. The majority (80%) of the district's net assets are invested in capital assets and 12% of net assets are unrestricted. The table below summarizes the net assets for the District's the last two years and shows the changes from 2015 to 2016.

	<u>2016</u>	<u>2015</u>	<u>Amount of Change</u>
Current Assets	\$ 656,767	\$ 314,626	\$ 342,141
Restricted Accounts	421,222	425,855	(4,633)
Net Plant and Distribution Systems	7,163,009	5,936,792	1,226,217
Other Assets	<u>344,131</u>	<u>458,321</u>	<u>(114,190)</u>
Total Assets	8,585,129	7,135,594	1,449,535
Current Liabilities	1,704,420	314,510	1,389,910
Long-Term Debt	<u>1,337,400</u>	<u>1,393,500</u>	<u>(56,100)</u>
Total Liabilities	3,041,820	1,708,010	1,333,810
Invested in capital assets - net of debt	4,458,601	4,524,613	(66,012)
Restricted	421,222	425,855	(4,633)
Unrestricted - Board-reserved for major maintenance	310,039	422,300	(112,261)
Unrestricted - Unreserved	<u>353,447</u>	<u>54,816</u>	<u>298,631</u>
Total Net Assets	\$ 5,543,309	\$ 5,427,584	\$ 115,725

The second statement that is displayed is the Statement of Activities and Changes in Net Assets. This statement aims to show the reader how various revenues and expenditures of the district contribute to the changes seen in net assets from year to year.

	<u>2016</u>	<u>2015</u>	<u>Amount of Change</u>
Water sales	\$ 1,617,973	\$ 1,368,952	\$ 249,021
Penalties	33,477	22,418	11,059
Service charges and miscellaneous	<u>46,136</u>	<u>25,305</u>	<u>20,831</u>
Total Revenues	1,697,586	1,416,675	280,911
Operating Expenses	<u>1,551,827</u>	<u>1,498,986</u>	<u>52,841</u>
Operating Income (Loss)	145,759	(82,311)	228,070
Net Non-Operating Income (Loss)	<u>(79,770)</u>	<u>(58,390)</u>	<u>(21,380)</u>
Income (Loss) Before Capital Contributions	65,989	(140,701)	206,690
Grants and Other Contributions	15,461	1,710,125	(1,694,664)
Connection Fees	<u>34,275</u>	<u>73,610</u>	<u>(39,335)</u>
Total Capital Contributions	49,736	1,783,735	(1,733,999)
Change in Net Assets	\$ 115,725	\$ 1,643,034	\$ (1,527,309)

The large amount of grants and contributions in 2015 is the primary driver of the large decrease in net assets from 2016 to 2015. In 2015, JCWD #1 implemented a new rate in order to help finance construction of a new water storage tower.

The third and final statement is the Statement of Cash Flows. This statement shows the changes in cash and cash equivalents in different activities of the District from year to year.

	<u>2016</u>	<u>2015</u>	<u>Amount of Change</u>
Net Cash flows from Operating Activities	\$ 356,328	\$ 174,410	\$ 181,918
Net Cash flows from Investing Activities	1,333	1,198	135
Net Cash flows from Capital and Related Financing Activities	<u>(137,190)</u>	<u>(119,054)</u>	<u>(18,136)</u>
Net Increase in Cash and Cash Equivalents	\$ 220,471	\$ 56,554	\$ 163,917

The positive net cash flow from operating activities is a strong indicator of financial success as well as the net increase in cash and cash equivalents. The net decrease in cash flows from capital and related financing activities is primarily due to principal and interest payments on bond obligations.

Financial Highlights

- Net assets for year-end 2016 were \$5,543,309 which was an increase of \$115,725 from year-end 2015.
- Net operating cash flows for 2016 were \$356,328 which is up \$181,918 from year-end 2015.

Budget Comparisons

The Department of Local Government requires certain SPGEs to report budgets, amendments, and audits for the public to view. The 2016 budget did not vary significantly from the year-end financial statements. Budgets and other financial information reports are available for the public to view on the Kentucky Department for Local Government's website.

Capital Assets and Debt Administration

The District is currently building a new water tank storage tower and saw capital assets increased to \$7,163,009 at year-end 2016. Financing for the new water tower was done through a large grant and USDA loan with favorable interest rates. In 2016, the loan was finalized, and total debt increased to \$2,738,500.

Economic Factors for Next Year

Jessamine County is undergoing rapid growth in housing due to Lexington's rising job market. Many more customers are expected to move into the district's territory and require new service. Rates from our providers are rising which recently caused management to increase rates in order to keep up with the rising cost of water being sold. Our main capital project, the new water tower off Brannon Road, is expected to be completed in 2017 with no additional capital projects being discussed in the near future. Management does not believe that interest rates or market volatility will have a significant impact on operations in 2017.

Contacting Management

This narrative was meant to help the reader better understand the financial position of JCWD #1. If any user of these documents has any questions or concerns they would like addressed they are invited to write management at:

Jessamine County Water District #1
2225 Lexington Road
Nicholasville, KY 40356

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Jessamine County Water District #1
Nicholasville, Kentucky

We have audited the accompanying financial statements of Jessamine County Water District #1 (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the 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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Jessamine County Water District #1 and do not purport to, and do not, present fairly the financial position of the City of Nicholasville, Kentucky, as of December 31, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-5 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of net assets by funds and activities and changes in net assets by funds are presented for purposes of additional analysis and are not a required part of the financial statements.

The statements of net assets by funds and activities and changes in net assets by funds are the responsibility of management and were 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Emmalee Beaton Diruf

March 1, 2017

JESSAMINE COUNTY WATER DISTRICT #1
STATEMENTS OF NET ASSETS
DECEMBER 31,

	2016	2015
ASSETS:		
CURRENT ASSETS:		
Cash	\$ 525,246	\$ 187,881
Accounts receivable	126,696	119,395
Prepaid expenses	4,825	7,350
TOTAL CURRENT ASSETS	656,767	314,626
RESTRICTED CASH ACCOUNTS:		
Customer deposits	122,612	102,968
Reserve accounts for revenue bonds	298,610	322,887
TOTAL RESTRICTED CASH ACCOUNTS	421,222	425,855
PLANT AND DISTRIBUTION SYSTEM:		
Pumping Plant and Distribution System	9,936,524	8,527,602
Less, accumulated depreciation	(2,773,515)	(2,590,810)
NET PLANT AND DISTRIBUTION SYSTEM	7,163,009	5,936,792
OTHER ASSETS:		
Cash - District-designated reserves	310,039	422,300
Unamortized bond costs - net	34,092	36,021
TOTAL OTHER ASSETS	344,131	458,321
TOTAL ASSETS	\$ 8,585,129	\$ 7,135,594
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable and accrued expense	\$ 169,085	\$ 168,132
Sales, utilities and payroll taxes payable	31,983	9,222
Accrued interest	30,551	19,681
Current portion of revenue bonds	56,100	54,700
Construction loan	1,345,000	-
Customer deposits	71,701	62,775
TOTAL CURRENT LIABILITIES	1,704,420	314,510
LONG-TERM DEBT:		
Revenue bonds, net of current portion	1,337,400	1,393,500
NET ASSETS:		
Invested in capital assets - net of debt	4,458,601	4,524,613
Restricted	421,222	425,855
Unrestricted - Board-reserved for major maintenance	310,039	422,300
Unrestricted - Unreserved	353,447	54,816
TOTAL NET ASSETS	5,543,309	5,427,584
TOTAL LIABILITIES AND NET ASSETS	\$ 8,585,129	\$ 7,135,594

See accompanying notes and independent auditors' report.

JESSAMINE COUNTY WATER DISTRICT #1
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31,

	2016	2015
REVENUES:		
Water sales	\$ 1,617,973	\$ 1,368,952
Penalties	33,477	22,418
Service charges and miscellaneous	46,136	25,305
TOTAL REVENUES	1,697,586	1,416,675
OPERATING EXPENSES:		
Water purchased	746,048	696,453
Depreciation	182,705	176,537
Office payroll	98,880	88,913
Meter readings and testings	106,144	104,909
Maintenance and repairs	152,629	157,594
Office and miscellaneous	47,019	51,366
Payroll taxes and employee insurance	45,494	34,966
Professional fees	22,958	21,839
Commissioners' salaries	18,000	14,000
Engineering	27,931	77,564
Utilities and telephone	19,866	17,334
Rent	25,800	25,800
Insurance	22,312	14,925
Bad debts	36,041	16,786
TOTAL OPERATING EXPENSES	1,551,827	1,498,986
OPERATING INCOME (LOSS)	145,759	(82,311)
NON-OPERATING INCOME AND (EXPENSES):		
Interest income	1,333	1,198
Interest expense	(81,103)	(59,588)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	65,989	(140,701)
GOVERNMENTAL GRANTS AND OTHER CONTRIBUTIONS:		
Grants and Contributions	15,461	1,710,125
Connection Fees	34,275	73,610
CHANGE IN NET ASSETS	115,725	1,643,034
NET ASSETS, BEGINNING OF YEAR	5,427,584	3,784,550
NET ASSETS, END OF YEAR	\$ 5,543,309	\$ 5,427,584

See accompanying notes and independent auditors' report.

JESSAMINE COUNTY WATER DISTRICT #1
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Cash and Cash Equivalents:		
Cash Flows from Operating Activities:		
Cash received from customers	\$ 1,654,244	\$ 1,372,169
Cash paid to suppliers and service providers	(1,306,842)	(1,205,900)
Net customer deposits	8,926	8,141
NET CASH FLOWS FROM OPERATING ACTIVITIES	356,328	174,410
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	1,333	1,198
NET CASH FLOWS FROM INVESTING ACTIVITIES	1,333	1,198
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Connection fees and other contributions	49,736	1,783,735
Capital expenditures	(1,408,922)	(1,790,873)
Interest paid	(68,304)	(58,416)
Issuance of construction loan	1,345,000	-
Principal payments under bond obligations	(54,700)	(53,500)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(137,190)	(119,054)
NET INCREASE IN CASH AND CASH EQUIVALENTS	220,471	56,554
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,036,036	979,482
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,256,507	\$ 1,036,036
RECONCILIATION OF NET LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss from Operations	\$ 145,759	\$ (82,311)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	182,705	176,537
Bad debts	36,041	16,786
(Increase) Decrease in accounts receivable	(43,342)	(44,506)
(Increase) Decrease in prepaid expenses	2,525	(1,850)
Increase (Decrease) in customer deposits	8,926	8,141
Increase (Decrease) in accounts payable and accruals	23,714	101,613
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 356,328	\$ 174,410

See accompanying notes and independent auditors' report.

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ORGANIZATION AND ACCOUNTING POLICIES

Jessamine County Water District #1 (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.

Basis of Presentation

The District is an individual fund and is accounted for as a business-type activity fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

The District classifies its net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Basis of Accounting

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America. By utilizing this method, revenues are recognized when they are earned, and expenses are recognized as they are incurred.

Operating income reported in the financial statements includes revenues and expenses related to the continuing operation of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Accordingly, actual results could differ from those estimates.

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ORGANIZATION AND ACCOUNTING POLICIES - continued

Compensated Absences

Employee absences are compensated in the following manner:

- Vacation – Employees are given five vacation days each year with one additional day earned per year of employment with a maximum of ten days.
- Holidays – A total of nine holidays are compensated during the course of a year.
- Sick days – Employees are granted six sick days per year of employment with a maximum accumulation of 24 days. Employees will be paid each year at their hourly rate for any days above the 24.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturity of ninety days or less to be cash equivalents.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Bad debts are provided on the direct write-off method, whereby current earnings are charged for amounts determined by management to be uncollectible based on its evaluation of outstanding accounts receivable at the end of the year. As of December 31, 2016 and 2015 management does not believe the direct write-off method differs materially from the allowance method whereby an allowance for doubtful accounts is recorded from amounts estimated to be uncollectible.

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 as of the year end. The District has determined such items to be immaterial as of December 31, 2016.

Capital and Operating Grants

The District received \$1,710,125 and \$15,461 in grants restricted to the purchase or construction of capital assets for the years ended December 31, 2016 and 2015, respectively.

Unamortized Debt Discount, Issuance Expense, and Deferred Amount from Refunding

Original issue discounts, debt issuance expenses, and deferred amounts from the advance refunding of outstanding revenue certificates are appropriately deferred and amortized over the remaining terms of the applicable debt issues or the life of the old debt, whichever is shorter, for deferred amounts from the advance refunding. The amortization expense on bond issuance costs was \$1,929 for the years ended December 31, 2016 and 2015.

Capital Assets

District 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 – 40 years; Meters and Services – 40 years; Office furnishings – 10 years; and Office Equipment – 5 years. Capital acquisitions of \$1,408,922 and \$1,790,873 and dispositions of \$0 and \$0 were made during the years ended December 31, 2016 and 2015.

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ORGANIZATION AND ACCOUNTING POLICIES - continued

Income Taxes

The District is exempt from federal and state income taxes under section 501(c)(12) of the Internal Revenue Code. As of December 31, 2016 and 2015, management of the District has no uncertain tax positions that qualify for disclosure in the financial statements.

Concentrations

Although the District is directly affected by economic conditions in the geographical area, management does not believe significant credit risk exists as of December 31, 2016 and 2015.

Date of Management's Review

The District's subsequent events have been evaluated through March 1, 2017, which is the date the financial statements were available to be issued.

NOTE B – 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; and securities collateralizing repurchase agreements are to be held by independent third parties.

Investments

The District has no monies invested in accounts other than bank checking and savings accounts, money market accounts, and certificates of deposit.

Bank Deposits

The fair market value of deposits was equivalent to the reported values, as all deposits are in checking or savings accounts, reported at par. All deposits are secured by \$250,000 of FDIC insurance and by securities held by the banks in the District's name in the form of pledged collateral and are categorized for level of risk purposes as (Deposits insured or collateralized with securities held by the District or by its agent in the District's name). There were no (collateralized with securities held by the pledging financial institution's trust department or agent in the District's name) nor were there any (uncollateralized) deposits.

NOTE C – 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.

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE D – LONG-TERM DEBT

The District is obligated on debt instruments secured by the water revenues. Balances on the debt obligations as of December 31, 2016 and 2015 are as follows:

	2016	2015
Water Revenue Bonds of 1999 issued through the U. S. Department of Agriculture and administered by Rural Development. The combined issue was in the principal amount of \$1,492,000, bearing an interest rate of 5.30% annually and maturing December 31, 2038. Additional principal payments were made in 2012 to extinguish the Series A bond and the total of all principal payments on the combined issue for the year ended December 31, 2012 were \$1,101,942.	\$ 232,500	\$ 238,200
Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2001 Refinancing Issue in the principal amount of \$376,000, bearing an interest rate of 5.15% annually and maturing in 2043.	186,000	205,000
Kentucky Rural Water Finance Corporation Public Projects Construction Note, Series D in the principal amount of \$1,345,000, bearing an interest rate of 2.65% annually and commencing June 1, 2016 and maturing in May 1, 2017.	1,345,000	-
Kentucky Rural Water Finance Corporation Public Projects Refunding Bonds Series 2012 E with par amount of \$1,080,000 and an average coupon rate of 3.54% maturing in 2043.	975,000	1,005,000
Total	2,738,500	1,448,200
Less current portion	(1,401,100)	(54,700)
Total long-term debt	\$ 1,337,400	\$ 1,393,500

A summary of future maturities on the aforementioned debt obligations is as follows:

	Interest	Principal	Total
2017	\$ 87,591	\$ 1,401,100	\$ 1,488,691
2018	49,944	57,300	107,244
2019	47,688	60,700	108,388
2020	45,177	64,083	109,260
2021	42,537	68,300	110,837
Thereafter	390,234	1,087,017	1,477,251
Total Payments	\$ 663,171	\$ 2,738,500	\$ 3,401,671

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE E – RESTRICTED ASSETS

The restricted assets in the accompanying financial statements are restricted by ordinance, external parties or by board designation. The following schedule sets forth restricted assets of December 31, 2016:

Restricted Cash Accounts	Balance in Account	Required Balance	Excess Balance
Customer Deposits	\$ 122,612	\$ 71,701	\$ 50,911
Revenue Bonds:			
Reserve Fund	200,946	42,200	158,746
Bond and Interest Fund	97,664	54,626	43,038
Board-Designated accounts	<u>310,039</u>	<u>310,039</u>	<u>-</u>
Total Cash in Restricted Accounts	<u>\$ 731,261</u>	<u>\$ 478,566</u>	<u>\$ 252,695</u>

NOTE F – COMPLIANCE WITH BOND ORDINANCES

The District is in compliance with applicable bond ordinances that require maintenance of certain funds as set forth following:

Revenue Fund – All gross revenues of the District are deposited into this fund and subsequently distributed monthly to the other funds according to the following fund descriptions:

- Bond and Interest Sinking Fund – For the retirement of bond and interest obligations, an amount equal to 1/12 of the amount of interest and principal becoming due on the next payment date is deposited monthly into this fund for the Revenue bonds of 1999 and 2001. An amount equal to 1/6 of the next succeeding interest payment and 1/12 of the outstanding principal maturing on the next succeeding payment date is deposited monthly into this fund for the Kentucky Rural Water Finance Corporation Public Projects Refunding Bonds Series 2012.
- Reserve Fund – A bond reserve account of at least \$42,200 is to be maintained for the 1999 Revenue Bond until the maturity of the Bond Issue.
- Operations and Maintenance Fund – Deposits are to be made to meet the reasonable and necessary expenses of operating and maintaining the District for the current month not to exceed the amount required to cover expenditures for a two-month period.
- Depreciation Fund – Subject to the priority of the above funds, deposits are to be made to this fund for the purpose of paying unusual or extraordinary maintenance, repairs, renewals and replacements.
- Construction Fund – This fund is to be used to construct additions, extensions, and improvements other than those of the Depreciation Fund.

NOTE G – MAJOR PROJECTS (CONSTRUCTION AND GRANT FUNDING)

The District includes construction in progress on the accompanying statements of net assets as a component of District Plant – Distribution System as follows:

- Storage Tank Project – costs to date as of December 31, 2016 and 2015 were \$3,566,511 and \$2,149,603, respectively. Projected project cost is anticipated to total \$3,669,134 which will be funded by grants and loan proceeds.

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE H – CONCENTRATION OF CREDIT RISK

The District has a concentration of credit risk in that it periodically maintains cash deposits in a single financial institution in excess of amounts insured by the FDIC. The District has not experienced any losses on such accounts and does not believe it is subject to significant credit risk.

NOTE I – FACILITIES LEASE

The District moved its facilities and entered into a 15-year lease effective June 1, 2010. Terms of the lease call for monthly payments in the amount of \$1,950 through May 2013. Thereafter rents will increase to \$2,150 monthly through May 2018 and \$2,370 monthly through May 2023. Total rent expense was \$25,800 for each of the years ended December 31, 2016 and 2015, respectively.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Jessamine County Water District #1

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Jessamine County Water District #1 (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 1, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Our 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



March 1, 2017

JESSAMINE COUNTY WATER DISTRICT #1
STATEMENT OF NET ASSETS BY FUNDS
DECEMBER 31, 2016
(with comparative totals for December 31, 2015)

	Revenue Fund	Operations and Maintenance Fund	Depreciation Fund	Bond and Interest Sinking Fund	Reserve Fund	Construction Fund	Totals 2016	Totals 2015
ASSETS								
CURRENT ASSETS:								
Cash	\$ 123,499	\$ 139,151	\$ 201,455	\$ -	\$ -	\$ 262,596	\$ 726,701	\$ 501,999
Accounts receivable	126,676	(390)	7	403	-	-	126,696	119,395
Prepaid expenses	-	4,825	-	-	-	-	4,825	7,350
TOTAL CURRENT ASSETS	250,175	143,586	201,462	403	-	262,596	858,222	628,744
RESTRICTED CASH ACCOUNTS:	122,612	-	-	97,664	200,946	-	421,222	425,855
PLANT AND DISTRIBUTION SYSTEM:								
Pumping Plant and Distribution System	-	-	-	-	-	9,936,524	9,936,524	8,527,602
Less, accumulated depreciation	-	-	-	-	-	(2,773,515)	(2,773,515)	(2,590,810)
NET PLANT AND DISTRIBUTION SYSTEM	-	-	-	-	-	7,163,009	7,163,009	5,936,792
OTHER ASSETS:								
Cash - District-designated reserve	-	-	108,584	-	-	-	108,584	108,182
Unamortized bond costs	-	-	-	-	-	34,092	34,092	36,021
TOTAL OTHER ASSETS	-	-	108,584	-	-	34,092	142,676	144,203
TOTAL ASSETS	\$ 372,787	\$ 143,586	\$ 310,046	\$ 98,067	\$ 200,946	\$ 7,459,697	\$ 8,585,129	\$ 7,135,594
LIABILITIES AND EQUITIES								
CURRENT LIABILITIES:								
Accounts payable and accrued expense	\$ -	\$ 169,085	\$ -	\$ -	\$ -	\$ -	\$ 169,085	\$ 168,132
Sales, utilities and payroll taxes payable	7,893	24,090	-	-	-	-	31,983	9,222
Accrued interest	-	-	-	30,551	-	-	30,551	19,681
Current portion of revenue bonds	-	-	-	-	-	56,100	56,100	54,700
Construction loan	-	-	-	-	-	1,345,000	1,345,000	-
Customer deposits	71,701	-	-	-	-	-	71,701	62,775
TOTAL CURRENT LIABILITIES	79,594	193,175	-	30,551	-	1,401,100	1,704,420	314,510
LONG-TERM DEBT:								
Revenue bonds, net of current portion	-	-	-	-	-	1,337,400	1,337,400	1,393,500
NET ASSETS:								
Fund Balances	293,193	(49,589)	(1,709,659)	67,516	200,946	2,362,692	1,165,099	(646,228)
Contributions in Aid of Construction	-	-	2,019,705	-	-	2,358,505	4,378,210	6,073,812
TOTAL NET ASSETS	293,193	(49,589)	310,046	67,516	200,946	4,721,197	5,543,309	5,427,584
TOTAL NET ASSETS AND LIABILITIES	\$ 372,787	\$ 143,586	\$ 310,046	\$ 98,067	\$ 200,946	\$ 7,459,697	\$ 8,585,129	\$ 7,135,594

See accompanying notes and independent auditors' report.

JESSAMINE COUNTY WATER DISTRICT #1
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(with comparative totals for December 31, 2015)

	Revenue Fund	Operations & Maintenance Fund	Depreciation Fund	Bond and Interest Sinking Fund	Reserve Fund	Construction Fund	Eliminations	Totals 2016	Totals 2015
REVENUE:									
Water sales	\$ 1,617,973	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,617,973	\$ 1,368,952
Penalties	33,477	-	-	-	-	-	-	33,477	22,418
Service charges and miscellaneous	42,053	-	2,804	1,279	-	-	-	46,136	25,305
TOTAL REVENUE	1,693,503	-	2,804	1,279	-	-	-	1,697,586	1,416,675
OPERATING EXPENSES:									
Water purchased	-	746,048	-	-	-	-	-	746,048	696,453
Depreciation	-	-	-	-	-	182,705	-	182,705	176,537
Office payroll	-	98,880	-	-	-	-	-	98,880	88,913
Meter readings and testings	-	106,144	-	-	-	-	-	106,144	104,909
Maintenance and repairs	-	152,629	-	-	-	-	-	152,629	157,594
Office and miscellaneous	160	46,609	-	250	-	-	-	47,019	51,366
Payroll taxes and employee insurance	-	45,494	-	-	-	-	-	45,494	34,966
Professional fees	-	22,958	-	-	-	-	-	22,958	21,839
Commissioners' salaries	-	18,000	-	-	-	-	-	18,000	14,000
Engineering	-	-	27,931	-	-	-	-	27,931	77,564
Utilities and telephone	-	19,866	-	-	-	-	-	19,866	17,334
Rent	-	25,800	-	-	-	-	-	25,800	25,800
Insurance	-	22,312	-	-	-	-	-	22,312	14,925
Bad debts	36,041	-	-	-	-	-	-	36,041	16,786
TOTAL OPERATING EXPENSES	36,201	1,304,740	27,931	250	-	182,705	-	1,551,827	1,498,986
OPERATING INCOME (LOSS)	1,657,302	(1,304,740)	(25,127)	1,029	-	(182,705)	-	145,759	(82,311)
NON-OPERATING INCOME AND (EXPENSES)									
Interest income	659	29	481	60	104	-	-	1,333	1,198
Interest expense	(151)	-	-	(79,023)	-	(1,929)	-	(81,103)	(59,588)
INCOME (LOSS) BEFORE GRANTS AND CAPITAL CONTRIBUTIONS	1,657,810	(1,304,711)	(24,646)	(77,934)	104	(184,634)	-	65,989	(140,701)
GRANTS AND OTHER CONTRIBUTIONS									
Additions to system	-	(22,641)	-	-	-	22,641	-	-	-
Connection fees and meter sales	-	200	34,075	-	-	-	-	34,275	73,610
Contributions in aid of construction	-	-	15,461	-	-	-	-	15,461	1,710,125
CHANGE IN NET ASSETS	1,657,810	(1,327,152)	24,890	(77,934)	104	(161,993)	-	115,725	1,643,034
TRANSFERS	(1,493,914)	(549,144)	(298,361)	132,799	5,670	2,202,950	-	-	-
NET ASSETS, BEGINNING OF YEAR	129,297	1,826,707	583,517	12,651	195,172	2,680,240	-	5,427,584	3,784,550
NET ASSETS, END OF YEAR	\$ 293,193	\$ (49,589)	\$ 310,046	\$ 67,516	\$ 200,946	\$ 4,721,197	\$ -	\$ 5,543,309	\$ 5,427,584

See accompanying notes and independent auditors' report.

Jessamine County Water District #1
 Budgetary Comparison Schedule
 Year Ended December 31, 2016

Revenues	Budget	Actual	Variance
Water Sales	\$ 1,492,095	\$ 1,617,973	\$ (125,878)
Penalties	18,367	33,477	(15,110)
Service Charges	24,444	46,136	(21,692)
Total Revenues	1,534,906	1,697,586	(162,680)
Operating Expenses			
Water Purchased	800,000	746,048	53,952
Gross Profit	734,906	951,538	(216,632)
Depreciation	215,000	182,705	32,295
Office Payroll	100,880	98,880	2,000
Meter readings	104,125	106,144	(2,019)
Maintenance and repairs	99,782	152,629	(52,847)
Office and Misc.	43,000	47,019	(4,019)
Payroll Taxes and insurance	44,224	45,494	(1,270)
Professional Fees	49,080	22,958	26,122
Commissioner's Salaries	18,000	18,000	-
Engineering	5,000	27,931	(22,931)
Utilities and telephone	16,870	19,866	(2,996)
Rent	25,800	25,800	-
Insurance	18,000	22,312	(4,312)
Bad debts	10,000	36,041	(26,041)
Total Operating Expenses	749,761	805,779	(56,018)
Operating Income	(14,855)	145,759	(160,614)
Non-Operating Income			
Interest income	3,000	1,333	1,667
Interest expense	(73,848)	(81,103)	7,255
Income before capital cont.	(85,703)	65,989	(151,692)
Grants and contributions	-	15,461	(15,461)
Connection fees	50,000	34,275	15,725
Change in net assets	\$ (35,703)	\$ 100,264	\$ (135,967)

See accompanying independent auditors' report