

**JESSAMINE-SOUTH ELKHORN
WATER DISTRICT
Nicholasville, Kentucky**

**FINANCIAL STATEMENTS
December 31, 2015**

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Jessamine-South Elkhorn Water District
Nicholasville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Jessamine-South Elkhorn Water District, as of and for the year ended December 31, 2015, 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.

Auditors' Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Jessamine-South Elkhorn Water District, as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year 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 3–8 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 opinions on the financial statements that collectively comprise Jessamine-South Elkhorn Water District's basic financial statements. The budgetary comparisons are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The budgetary comparisons 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 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 our opinion, the previously referenced statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior-year comparative information

We have previously audited the District's 2014 financial statements, and we expressed unmodified audit opinions on the respective financial statements in our report dated April 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2016, on our consideration of Jessamine-South Elkhorn Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jessamine-South Elkhorn Water District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
April 26, 2016

JESSAMINE-SOUTH ELKHORN WATER DISTRICT

Water and Sewer Divisions

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's 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 for the fiscal year ended December 31, 2015.

Jessamine-South Elkhorn Water District (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 Division 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 county.

Highlights

- The District's assets exceeded its liabilities by \$15,306,611 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$15,602,640 (restated).

- Total net position is comprised of the following:

- Unrestricted funds represent the portion available to maintain the District's continuing obligations to the citizens and creditors.

- The District's funds reported a total ending fund balance of \$15,306,611 this year. This compares to the prior year ending fund balance of \$15,602,640 showing a decrease of \$296,029 during the current year.

- At the end of the current fiscal year, unrestricted fund balance for the District was \$409,339 or 15% of the total District expenditures and 17% of total District revenues.

- The liabilities for the District in the current year were \$8,231,086. Prior year liabilities were \$8,447,218.

- 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 2,856 water and 699 sewer customers.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include proprietary fund statements and notes to the financial statements. The first of these proprietary fund statements is the *Statement of Net Position*. This statement presents all of the District's assets and liabilities, with the difference reported as net position.

The second proprietary fund statement is the *Statement of Revenues, Expenses and Changes in Net Position* which reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The third proprietary fund statement is the *Statement of Cash Flows* which reports cash amounts received and expended for operations, financing and investment in capital assets, and investing.

Business-type (proprietary) 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 the sewer division and expansion of the water division to serve the citizens of Jessamine County.

The District uses internal funds to ensure and demonstrate compliance with finance-related laws and regulations. The District maintains a water fund and a sewer fund for financial reporting purposes.

The District uses the following cash accounts for the water division:

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

Operations 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 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 of 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 position at fiscal year-end is \$15,306,611. This is a decrease of \$296,029 from last year's net position of \$15,602,640. The following table provides a summary of the District's net position:

	Combined Activities		Amount Change	Percent Change
	12/31/2015	12/31/2014		
Assets				
Current and other Assets	\$ 482,454	\$ 348,673	\$ 133,781	38.37%
Non-current assets	1,050,148	1,234,951	(184,803)	-14.96%
Capital assets	22,005,095	22,466,234	(461,139)	-2.05%
Total Assets	23,537,697	24,049,858	(512,161)	-2.13%
Liabilities				
Current and other Liabilities	203,386	441,467	(238,081)	-53.93%
Current Long-term Debt	174,338	171,281	3,057	1.78%
Non-current Long-term Debt	7,853,362	7,834,470	18,892	0.24%
Total Liabilities	8,231,086	8,447,218	(216,132)	-2.56%
Net Position				
Net investment in capital assets	13,977,395	14,460,483	(483,088)	-3.34%
Restricted	919,877	1,115,861	(195,984)	-17.56%
Unrestricted Unreserved	292,492	(90,089)	382,581	-424.67%
Unrestricted-board designated depreciation reserves	116,847	116,385	462	0.40%
TOTAL NET POSITION	\$ 15,306,611	\$ 15,602,640	\$ (296,029)	-1.90%

The District's overall financial position (net position) decreased \$296,029 during fiscal year 2015.

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

Assets of the District have increased primarily due to the grant revenues for construction of water and sewer assets in the area.

Total expenditures during the current fiscal year were \$296,029 more than the revenues. The difference is attributable to depreciation charges.

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

	Combined Activities		Amount Change	Percent Change
	12/31/2015	12/31/2014		
General Revenues				
Water and Sewer Sales	\$ 2,655,743	\$ 2,529,654	\$ 126,089	4.98%
Other Revenues	142,574	103,417	39,157	37.86%
Total Revenues	<u>2,798,317</u>	<u>2,633,071</u>	<u>165,246</u>	6.28%
Operating Expenses	<u>3,027,682</u>	<u>2,799,552</u>	<u>228,130</u>	8.15%
Net Operating Income	(229,365)	(166,481)	(62,884)	37.77%
Other Income	38,886	1,411	37,475	2,655.92%
Other Expenses	<u>(266,955)</u>	<u>(228,965)</u>	<u>(37,990)</u>	16.59%
Subtotal Other Income/Expenses	(228,069)	(227,554)	(515)	0.23%
Connection Fees & Construction Governmental Construction Grants	161,405 0	110,938 0	50,467 0	45.49% 0%
Subtotal Capital Income	<u>161,405</u>	<u>110,938</u>	<u>50,467</u>	49.59%
Change in Net Assets	(296,029)	(283,097)	(12,932)	4.37%
Net Assets Beginning of Year	<u>15,602,640</u>	<u>15,885,737</u>	<u>(283,097)</u>	-1.78%
Net Assets End of Year	<u>\$ 15,306,611</u>	<u>\$ 15,602,640</u>	<u>\$ (296,029)</u>	-1.90%

As portrayed above and discussed earlier, the District is heavily reliant on revenues from sales of water and sewer services which provides 94.9% and 99.9% of the District's operating revenues in fiscal years 2015 and 2014, respectively.

Financial Analysis of the District's Funds

Proprietary (Enterprise) Funds

The year-end total of net position for the combined funds was \$15,306,611. Of the year-end total, approximately \$292,492 is unreserved for operations, \$116,847 for Board designated projects, \$919,877 restricted for either debt service or construction, and \$13,977,395 in net investment in capital assets.

The total ending fund balances of the combined funds shows a decrease of \$296,029 from the prior year. This decrease was due primarily to the increase in operating expenses.

Budgetary Highlights

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

Budgetary comparison statements are included in the additional supplementary information section of the financial statements for the water and sewer funds. 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 \$657,399 was expensed on the statement of revenue, expenses and changes in net position. During the year the District received connection fees for the construction of assets in the amount of \$161,405. Other financing of capital assets were provided by loans and operating funds. Net capital assets decreased by \$461,139 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 drew \$190,846 in loan funds. Repayment of \$168,897 in principal was made on other debt. Interest expense paid during the year on long-term debt was \$266,955.

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 health hazards to our customers.

The District will continue expansion of their operations to better serve the Jessamine County citizens with a reliable water source. The District replaced five miles of deteriorated and leaking gray pipe that was

installed in the early 1970's. The construction of an elevated storage tank in the north end of Jessamine County has been approved and will begin in April 2016.

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

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2015

	Water Division	Sewer Division	Total Business-Type Activities	2014 Totals
ASSETS				
Current assets				
Cash	\$ 285,498	\$ 103,225	\$ 388,723	\$ 273,111
Accounts receivable customers, net	34,585	37,239	71,824	58,978
Other receivables	2,743	-	2,743	4,503
Due (to) from other funds	329,024	(329,024)	-	-
Prepaid insurance	<u>19,164</u>	<u>-</u>	<u>19,164</u>	<u>12,081</u>
Total current assets	<u>671,014</u>	<u>(188,560)</u>	<u>482,454</u>	<u>348,673</u>
Restricted assets				
Cash	728,843	189,500	918,343	1,103,705
Certificates of deposit	<u>131,805</u>	<u>-</u>	<u>131,805</u>	<u>131,246</u>
Total restricted assets	<u>860,648</u>	<u>189,500</u>	<u>1,050,148</u>	<u>1,234,951</u>
Capital assets				
Property, plant and equipment	18,929,120	9,631,005	28,560,125	26,259,909
Less: accumulated depreciation	(6,064,904)	(1,314,579)	(7,379,483)	(6,722,084)
Construction in progress	<u>824,453</u>	<u>-</u>	<u>824,453</u>	<u>2,928,409</u>
Total capital assets	<u>13,688,669</u>	<u>8,316,426</u>	<u>22,005,095</u>	<u>22,466,234</u>
Total assets	<u>\$ 15,220,331</u>	<u>\$ 8,317,366</u>	<u>\$ 23,537,697</u>	<u>\$ 24,049,858</u>
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable	\$ 16,096	\$ 31,477	\$ 47,573	\$ 244,962
Taxes payable	9,513	-	9,513	-
Customer deposits	8,595	61,748	70,343	114,608
Accrued interest payable	48,676	27,281	75,957	81,897
Current portion of notes payable	102,238	-	102,238	100,281
Current portion of bonds payable	<u>52,000</u>	<u>20,100</u>	<u>72,100</u>	<u>71,000</u>
Total current liabilities	<u>237,118</u>	<u>140,606</u>	<u>377,724</u>	<u>612,748</u>
Long-term debt				
Notes payable	4,548,562	-	4,548,562	4,458,670
Bonds payable	<u>1,867,500</u>	<u>1,437,300</u>	<u>3,304,800</u>	<u>3,375,800</u>
Total long-term debt	<u>6,416,062</u>	<u>1,437,300</u>	<u>7,853,362</u>	<u>7,834,470</u>
Net position				
Net investment in capital assets	7,118,369	6,859,026	13,977,395	14,460,483
Restricted for debt service	78,100	163,989	242,089	225,938
Restricted for capital projects	408,449	25,511	433,960	646,101
Restricted for depreciation	14,958	-	14,958	14,861
Restricted for operation and maintenance	228,870	-	228,870	228,961
Unrestricted - board designated	116,847	-	116,847	116,385
Unrestricted	<u>601,558</u>	<u>(309,066)</u>	<u>292,492</u>	<u>(90,089)</u>
Total net position	<u>8,567,151</u>	<u>6,739,460</u>	<u>15,306,611</u>	<u>15,602,640</u>
Total liabilities and net position	<u>\$ 15,220,331</u>	<u>\$ 8,317,366</u>	<u>\$ 23,537,697</u>	<u>\$ 24,049,858</u>

The accompanying notes are an integral
part of the financial statements.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2015

	Water Division	Sewer Division	Total Business-Type Activities	2014 Totals
OPERATING INCOME				
Water sales	\$ 2,127,773	\$ -	\$ 2,127,773	\$ 2,041,908
Sewer sales	-	527,970	527,970	487,746
Other revenue	<u>83,755</u>	<u>58,819</u>	<u>142,574</u>	<u>103,417</u>
 Total operating income	 <u>2,211,528</u>	 <u>586,789</u>	 <u>2,798,317</u>	 <u>2,633,071</u>
OPERATING EXPENSES				
Water purchases	1,079,484	-	1,079,484	933,895
Sewer usage	-	301,363	301,363	265,030
Operation	329,383	163,954	493,337	450,183
Maintenance	150,898	63,525	214,423	214,721
General and administrative	<u>148,467</u>	<u>133,209</u>	<u>281,676</u>	<u>303,343</u>
 Total operating expense	 <u>1,708,232</u>	 <u>662,051</u>	 <u>2,370,283</u>	 <u>2,167,172</u>
 Operating income (loss) before depreciation	 503,296	 (75,262)	 428,034	 465,899
Depreciation expense	<u>(419,649)</u>	<u>(237,750)</u>	<u>(657,399)</u>	<u>(632,380)</u>
 OPERATING INCOME (LOSS)	 83,647	 (313,012)	 (229,365)	 (166,481)
Non-operating income (expenses)				
Settlement income	-	37,672	37,672	-
Interest income	1,094	120	1,214	1,411
Interest expense related to debt	<u>(212,393)</u>	<u>(54,562)</u>	<u>(266,955)</u>	<u>(228,965)</u>
 (LOSS) BEFORE CAPITAL CONTRIBUTIONS	 (127,652)	 (329,782)	 (457,434)	 (394,035)
Capital contributions				
Customer contributions	-	17,392	17,392	52,883
Tap fees	<u>7,920</u>	<u>136,093</u>	<u>144,013</u>	<u>58,055</u>
 Change in net position	 (119,732)	 (176,297)	 (296,029)	 (283,097)
Net position, beginning of year	<u>8,686,883</u>	<u>6,915,757</u>	<u>15,602,640</u>	<u>15,885,737</u>
 NET POSITION, END OF YEAR	 <u>\$ 8,567,151</u>	 <u>\$ 6,739,460</u>	 <u>\$ 15,306,611</u>	 <u>\$ 15,602,640</u>

The accompanying notes are an integral
part of the financial statements.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended December 31, 2015

	Water Division	Sewer Division	Total Business-Type Activities	2014 Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 2,211,498	\$ 613,405	\$ 2,824,903	\$ 2,676,858
Payments to suppliers	(1,295,303)	(745,584)	(2,040,887)	(1,604,584)
Payments for employee services and benefits	(433,028)	(141,531)	(574,559)	(512,196)
Net cash provided by (used in) operating activities	<u>483,167</u>	<u>(273,710)</u>	<u>209,457</u>	<u>560,078</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Retirement of note principal	(150,497)	(18,400)	(168,897)	(866,459)
Borrowings under long-term obligations	190,846	-	190,846	2,927,127
Interest paid	(212,393)	(54,562)	(266,955)	(228,965)
Customer contributions and tap fees	7,920	153,485	161,405	110,938
Purchase of fixed assets	(196,820)	-	(196,820)	(2,379,090)
Net cash provided by (used in) capital and related financing activities	<u>(360,944)</u>	<u>80,523</u>	<u>(280,421)</u>	<u>(436,449)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	1,094	120	1,214	1,410
Net cash provided by investing activities	<u>1,094</u>	<u>120</u>	<u>1,214</u>	<u>1,410</u>
NET INCREASE (DECREASE) IN CASH	123,317	(193,067)	(69,750)	125,039
Cash, beginning of year	<u>891,024</u>	<u>485,792</u>	<u>1,376,816</u>	<u>1,251,777</u>
CASH, END OF YEAR	<u>\$ 1,014,341</u>	<u>\$ 292,725</u>	<u>\$ 1,307,066</u>	<u>\$ 1,376,816</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 83,647	\$ (313,012)	\$ (229,365)	\$ (166,481)
Legal settlement income	-	37,672	37,672	-
Noncash items included in operating income				
Depreciation	419,649	237,750	657,399	632,380
Changes in assets and liabilities				
(Increase) decrease in accounts receivables	(1,209)	(11,637)	(12,846)	48,290
(Increase) decrease in other receivables	1,179	581	1,760	(4,503)
(Increase) decrease in due to (from) other funds	166,151	(166,151)	-	-
(Increase) decrease in prepaids	(7,083)	-	(7,083)	(203)
Increase (decrease) in accounts payable	(155,847)	(41,541)	(197,388)	98,326
Increase (decrease) in other payables	9,513	-	9,513	(3,618)
Increase (decrease) in interest payables	(4,992)	(948)	(5,940)	(7,436)
Increase (decrease) in customer deposits	(27,841)	(16,424)	(44,265)	(36,677)
Net cash provided by (used in) operating activities	<u>\$ 483,167</u>	<u>\$ (273,710)</u>	<u>\$ 209,457</u>	<u>\$ 560,078</u>
Cash and cash equivalents consist of the following:				
Unrestricted cash			\$ 388,723	
Restricted cash			<u>918,343</u>	
Total cash and cash equivalents			<u>\$ 1,307,066</u>	

The accompanying notes are an integral part of the financial statements.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

1. ORGANIZATION AND ACCOUNTING POLICIES

The Jessamine-South Elkhorn Water District, Water and Sewer Divisions (the District) is a special district formed for the express purpose of providing water service within the confines of Jessamine County, Kentucky. The District operates as an independent entity in that it is legally separate and holds corporate powers of organization.

Reporting Entity

The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The District consists of the Jessamine-South Elkhorn Water District Water Division, and Jessamine-South Elkhorn Water District Sewer Division. The District has oversight responsibility for no other organization.

Basis of Accounting

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system in addition to customer deposits.

When both restricted and unrestricted resources are available for use, the District's Board of Commissioners makes a determination as to which resource should be used first.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The District reports all revenues and expenses as operating, except interest income, interest expense, gains and losses on disposal of assets, and capital contributions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District defines cash as cash on hand, cash in bank, money market funds in both unrestricted and restricted accounts, and certificates of deposit with an initial maturity of less than 90 days.

Accounts Receivable

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. The reserve for the year ended December 31, 2015 totaled \$4,640.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Fixed assets of the District are recorded at cost and depreciated over their estimated useful lives using the straight line method. Plant and lines are capitalized with lives ranging from 5-65 years and furniture and equipment are capitalized with lives ranging from 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 have been 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. Land and land rights are not subject to depreciation. Interest costs during construction of fixed assets are capitalized as a part of the cost.

Interfund Transfers

The asset "due from other funds" and the liability "due to other funds" represent amounts transferred between funds that are owed for operating and non-operating expenses.

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 period. Actual results could differ from those estimates.

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through April 26, 2016, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2015, have not been evaluated by the District.

2. CASH AND INVESTMENTS

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States Government or its agencies.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest. The District's deposits and investments at December 31, 2015 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

2. CASH AND INVESTMENTS (CONTINUED)

The table presented below is designed to disclose the level of custody credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2015. The categories of credit risk are defined as follows:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterpart's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterpart or by its trust department or agent but not in the government's name.

Type of Deposit	Category			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 1,307,066	\$ -	\$ -	\$ 1,307,066	\$ 1,307,066
Certificates of deposit	<u>131,805</u>	<u>-</u>	<u>-</u>	<u>131,805</u>	<u>131,805</u>
	<u>\$ 1,438,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,438,871</u>	<u>\$ 1,438,871</u>

The following cash balances as shown on the Statements of Net Position at December 31, 2015:

	Unrestricted	Board Designated	Restricted	Total
Revenue Fund	\$ 216,824	\$ 28,910	\$ 116,847	\$ 362,581
Operation and Maintenance Fund	42,974	-	-	42,974
Bond and Interest Fund- Water	-	-	78,100	78,100
Debt Service Reserve	-	-	213,384	213,384
Depreciation Fund	-	-	14,958	14,958
Construction Fund- Water	<u>25,700</u>	<u>-</u>	<u>408,449</u>	<u>434,149</u>
Water Total	<u>285,498</u>	<u>28,910</u>	<u>831,738</u>	<u>1,146,146</u>
Construction Fund- Sewer	-	-	25,511	25,511
Bond and Interest Fund- Sewer	-	-	163,989	163,989
Sewer accounts	<u>103,225</u>	<u>-</u>	<u>-</u>	<u>103,225</u>
Sewer Total	<u>103,225</u>	<u>-</u>	<u>189,500</u>	<u>292,725</u>
Total	<u>\$ 388,723</u>	<u>\$ 28,910</u>	<u>\$ 1,021,238</u>	<u>\$ 1,438,871</u>

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

3. CAPITAL ASSETS

The following is a summary of capital asset activity during the year:

	Balance 12/31/2014	Additions	Disposals	Balance 12/31/2015
Capital assets not depreciated:				
Construction in progress - water	\$ 2,928,409	\$ 185,700	\$ (2,289,656)	\$ 824,453
Construction in progress - sewer	-	-	-	-
Total not depreciated	<u>2,928,409</u>	<u>185,700</u>	<u>(2,289,656)</u>	<u>824,453</u>
Capital assets being depreciated:				
Utility plant/distribution system	16,369,102	2,030,216	-	18,399,318
Sewer collection	9,288,637	270,000	-	9,558,637
Building	450,000	-	-	450,000
Operating equipment and furniture	11,634	-	-	11,634
Transportation - water	18,047	-	-	18,047
Transportation - sewer	17,032	-	-	17,032
Equipment- sewer	54,305	-	-	54,305
Communication - water	50,121	-	-	50,121
Communication - sewer	1,031	-	-	1,031
Total depreciated	<u>26,259,909</u>	<u>2,300,216</u>	<u>-</u>	<u>28,560,125</u>
Accumulated depreciation - water	(5,645,255)	(419,649)	-	(6,064,904)
Accumulated depreciation - sewer	(1,076,829)	(237,750)	-	(1,314,579)
Total depreciation	<u>(6,722,084)</u>	<u>(657,399)</u>	<u>-</u>	<u>(7,379,483)</u>
Net depreciable assets	<u>19,537,825</u>	<u>1,642,817</u>	<u>-</u>	<u>21,180,642</u>
Total capital assets, net	<u>\$ 22,466,234</u>	<u>\$ 1,828,517</u>	<u>\$ (2,289,656)</u>	<u>\$ 22,005,095</u>

For the year ended December 31, 2015, depreciation expense totaled \$657,399.

The District is completing a major construction project to upgrade primarily water lines but also includes some sewer lines. This project is directly related to the open KIA Revolving Loan disclosed on the following page in Note 4.

The construction of an elevated storage tank in the north end of Jessamine County has been approved and will begin in April or May of 2016.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

4. LONG-TERM DEBT

The following is a summary of the bonds outstanding for the District for the year ended December 31, 2015.

Series 2000B Revenue Bonds, various annual principal and interest payments at 5.125% through January 2039.	\$ 329,500
Series 2009A Revenue Bonds, various annual principal and semi-annual interest payments at 2.625% through January 2050.	228,400
Series 2008B Revenue Bonds, various annual principal and semi-annual interest payments at 4.375% through January 2050.	504,500
Series 2008A Revenue Bonds, various annual principal and semi-annual interest payments at 4.25% through January 2050.	724,500
Series 2012C Revenue Bonds, various annual principal and semi-annual interest payments at a flexible interest rate between 2.15% and 4.15% through January 2039.	<u>1,590,000</u>
Total	3,376,900
Less: current portion of bonds	<u>(72,100)</u>
Long-term bonds	<u>\$ 3,304,800</u>

The following is a summary of the notes outstanding for the District for the year ended December 31, 2015.

Central Bank note payable, monthly payments of \$6,422 including principal and interest at 3.25% through maturity in September 2019, with a final balloon payment for the remaining balance due at maturity.	\$ 276,923
Central Bank note payable, monthly payments of \$2,342 including principal and interest at 3.25% through maturity in September 2019, with a final balloon payment for the remaining balance due at maturity, secured by the District's office facilities.	390,633
2013 KIA Revolving Loan (see below)	2,402,973
2007 Kentucky Infrastructure Authority Revolving Loan F07-02, various semi-annual principal and interest payments at 3% through 2033.	<u>1,580,271</u>
Total	4,650,800
Less: current portion of notes	<u>(102,238)</u>
Long-term notes	<u>\$ 4,548,562</u>

The District has a note payable for a 2013 Kentucky Infrastructure Authority Revolving Loan, with interest only payments due semi-annual at a rate of 3%. Principal payments shall be repaid over a period not to exceed 20 years from the date the loan is closed. The total available to be drawn on this loan is \$3,025,300. The balance at December 31, 2015 totaled \$2,402,973. This amount is included on the following page in the summary of changes in long-term debt. This loan was not closed at December 31, 2015.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

4. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all bonds outstanding as of December 31, 2015 are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 72,100	\$ 133,482	\$ 205,582
2017	73,200	131,362	204,562
2018	79,300	129,190	208,490
2019	80,400	126,361	206,761
2020	82,000	123,482	205,482
2021-2025	455,900	570,989	1,026,889
2026-2030	543,800	477,652	1,021,452
2031-2035	662,200	356,867	1,019,067
2036-2040	692,000	208,098	900,098
2041-2045	286,500	107,077	393,577
2046-2050	<u>349,500</u>	<u>43,871</u>	<u>393,371</u>
	<u>\$ 3,376,900</u>	<u>\$ 2,408,431</u>	<u>\$ 5,785,331</u>

The annual requirements to amortize all notes payable outstanding as of December 31, 2015 are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 102,238	\$ 68,279	\$ 170,517
2017	104,965	65,553	170,518
2018	108,227	62,291	170,518
2019	644,417	58,622	703,039
2020	78,677	38,054	116,730
2021-2025	430,523	153,128	583,652
2026-2030	499,640	84,011	583,651
2031-2033	<u>279,140</u>	<u>12,686</u>	<u>291,826</u>
	<u>\$ 2,247,827</u>	<u>\$ 542,624</u>	<u>\$ 2,790,451</u>

The following is a summary of changes in long-term debt:

	December 31, 2014	Additions	Retirements	December 31, 2015	Due Within One Year
Long-term debt	<u>\$ 8,005,751</u>	<u>\$ 190,846</u>	<u>\$ (168,897)</u>	<u>\$ 8,027,700</u>	<u>\$ 174,338</u>

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

5. COMPLIANCE WITH BOND RESOLUTION

The bond resolution requires the District to maintain certain reserves as follows:

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.

Revenue Bond Fund Principal and Interest Sinking Fund, Sewer Fund - The District deposits each month an amount equal to one twelfth (1/12) of the amount of interest becoming due on all bonds outstanding on the next ensuing semiannual 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, 2015, the balance in this account exceeded the required amount.

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, 2015, the accounts that comprise the Debt Service Reserve Account-Water and Debt Service Reserve Account-Sewer exceeded the required amount.

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, 2015, the total balance of the funds that comprise the Operation and Maintenance Fund exceeded the required amount.

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. As of December 31, 2015, \$14,958 has been accumulated and exceeded the required amount.

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, 2015.

6. RETIREMENT PLAN

The District offers employees the option to participate in a Simplified Employee Pension Individual Retirement Account (SEP IRA) after completing three years of employment. The District contributes 6% of eligible employees salary to the SEP IRA annually. For the year ended December 31, 2015, the District contributed \$15,094 towards the employee retirement program.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

7. 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 a rate of 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 at a rate of one day for every month of employment and may accumulate to total no more than seventy-five days.

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. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF REVENUE AND EXPENSES - ACTUAL TO BUDGET - WATER DIVISION
for the year ended December 31, 2015

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Water sales	\$ 2,183,229	\$ 2,183,229	\$ 2,127,773	\$ (55,456)
Other revenues	<u>102,097</u>	<u>102,097</u>	<u>83,755</u>	<u>(18,342)</u>
Total operating revenue	<u>2,285,326</u>	<u>2,285,326</u>	<u>2,211,528</u>	<u>(73,798)</u>
OPERATING EXPENSES				
Water purchases	973,348	973,348	1,079,484	106,136
Operation	319,903	319,903	329,383	9,480
Maintenance	193,094	193,094	150,898	(42,196)
General and administrative	<u>164,184</u>	<u>164,184</u>	<u>148,467</u>	<u>(15,717)</u>
Total operating expense	<u>1,650,529</u>	<u>1,650,529</u>	<u>1,708,232</u>	<u>57,703</u>
Operating income before depreciation	634,797	634,797	503,296	(131,501)
Depreciation expense	<u>(448,109)</u>	<u>(448,109)</u>	<u>(419,649)</u>	<u>28,460</u>
OPERATING INCOME	186,688	186,688	83,647	(103,041)
Non-operating income (expenses)				
Interest income	770	770	1,094	324
Interest expense	<u>(92,781)</u>	<u>(92,781)</u>	<u>(212,393)</u>	<u>(119,612)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	94,677	94,677	(127,652)	(222,329)
Capital contributions				
Tap fees	<u>-</u>	<u>-</u>	<u>7,920</u>	<u>7,920</u>
Change in net position	<u>\$ 94,677</u>	<u>\$ 94,677</u>	<u>\$ (119,732)</u>	<u>\$ (214,409)</u>

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF REVENUE AND EXPENSES - ACTUAL TO BUDGET - SEWER DIVISION
for the year ended December 31, 2015

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer sales	\$ 517,582	\$ 517,582	\$ 527,970	\$ 10,388
Other revenue	<u>69,630</u>	<u>69,630</u>	<u>58,819</u>	<u>(10,811)</u>
Total operating revenue	<u>587,212</u>	<u>587,212</u>	<u>586,789</u>	<u>(423)</u>
OPERATING EXPENSES				
Sewer Usage	253,098	253,098	301,363	48,265
Operation	138,558	138,558	163,954	25,396
Maintenance	120,672	120,672	63,525	(57,147)
General and administrative	<u>51,877</u>	<u>51,877</u>	<u>133,209</u>	<u>81,332</u>
Total operating expense	<u>564,205</u>	<u>564,205</u>	<u>662,051</u>	<u>97,846</u>
Operating income before depreciation	23,007	23,007	(75,262)	(98,269)
Depreciation expense	<u>(207,005)</u>	<u>(207,005)</u>	<u>(237,750)</u>	<u>(30,745)</u>
OPERATING (LOSS)	(183,998)	(183,998)	(313,012)	(129,014)
Non-operating income (expenses)				
Settlement income	-	-	37,672	37,672
Interest income	116	116	120	4
Interest expense	<u>(56,255)</u>	<u>(56,255)</u>	<u>(54,562)</u>	<u>1,693</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(240,137)	(240,137)	(329,782)	(89,645)
Capital contributions				
Customer contributions	-	-	17,392	17,392
Tap fees	<u>-</u>	<u>-</u>	<u>136,093</u>	<u>136,093</u>
Change in net position	<u>\$ (240,137)</u>	<u>\$ (240,137)</u>	<u>\$ (176,297)</u>	<u>\$ 63,840</u>



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

Board of Commissioners
Jessamine-South Elkhorn Water District
Nicholasville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Jessamine-South Elkhorn Water District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Jessamine-South Elkhorn Water District's basic financial statements, and have issued our report thereon dated April 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Jessamine-South Elkhorn 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jessamine-South Elkhorn Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Jessamine-South Elkhorn 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2015-001 and 2015-002).

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we 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 Jessamine-South Elkhorn Water 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*.

Management's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



RFH, PLLC
April 26, 2016

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2015

FINDINGS:

2015-001 – Internal Control Over Financial Reporting (recurring)

Criteria:

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition:

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Cause:

The District transitioned financial reporting responsibilities to a new office manager during November 2014. Due to the transition, internal control procedures were not established timely to enable the new office manager to prepare the financial statements in conformity with generally accepted accounting principles.

Effect:

Numerous material adjustments were necessary to prepare the financial statements in conformity with generally accepted accounting principles.

Recommendation:

The District should strive to strengthen the financial reporting system and more closely adhere to governmental accounting practices. Transactions should be recorded in the appropriate funds and closing entries should be posted to all funds prior to initiation of the audit.

RESPONSE:

The District hopes to have corrected this finding for next year with the hiring of the current office manager.

2015-002 – Segregation of Duties (recurring)

Criteria:

The District is required to have internal controls that are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties.

Condition:

The District lacks segregation of duties.

Cause:

The District has a limited number of office/accounting personnel.

Effect:

Segregation of duties has not been achieved to a satisfactory level.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
December 31, 2015**

2015-002 – Segregation of Duties (continued)

Recommendation:

Although the size of the District's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. We recommend that the District perform the following procedures:

- Make a list of officer personnel and the accounting duties that they perform.
- Isolate any incompatible accounting functions that are the responsibility of one employee.
- Reassign responsibility for these duties or create a supervisory review of these functions.

RESPONSE:

The District will try to establish segregation of duties to the best of our ability.