

JESSAMINE COUNTY WATER DISTRICT #1
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

BESTEN & DIERUF, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

MANAGEMENT’S DISCUSSION AND ANALYSIS.....	PAGE 3
INDEPENDENT AUDITORS’ REPORT	6
FINANCIAL STATEMENTS:	
Statements of Net Assets	8
Statements of Activities and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11
SUPPLEMENTAL INFORMATION:	
Statement of Net Assets by Funds	18
Statement of Activities and Changes in Net Assets by Funds	19
Budgetary Comparison Schedule	20
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 <i>GOVERNMENT AUDITING STANDARDS</i>	21

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Jessamine County Water District #1 (the District) board of commissioners presents the following management discussion and analysis (MD&A) for the reader of the year end 2018 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 exceed 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 (72%) of the district's net assets are invested in capital assets and 14% of net assets are unrestricted. The table below summarizes the net assets for the last two years and shows the changes from year to year.

	<u>2018</u>	<u>2017</u>	<u>Amount of Change</u>
Current Assets	\$ 591,683	\$ 539,767	\$ 51,916
Restricted Accounts	813,601	623,949	189,652
Net Plant and Distribution Systems	6,867,733	7,080,162	(212,429)
Other Assets	495,312	429,101	66,211
Total Assets	8,768,329	8,672,979	95,350
Current Liabilities	294,524	276,716	17,808
Long-Term Debt	2,528,400	2,607,600	(79,200)
Total Liabilities	2,822,924	2,884,316	(61,392)
Invested in capital assets - net of debt	4,290,367	4,429,925	(139,558)
Restricted	813,601	623,949	189,652
Unrestricted - Board-reserved for major maintenance	465,078	396,938	68,140
Unrestricted - Unreserved	376,359	337,851	38,508
Total Net Assets	\$ 5,945,405	\$ 5,788,663	\$ 156,742

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>2018</u>	<u>2017</u>	<u>Amount of Change</u>
Water sales	\$ 1,709,567	\$ 1,698,078	\$ 11,489
Penalties	28,644	32,071	(3,427)
Service charges and miscellaneous	23,897	51,597	(27,700)
Total Revenues	1,762,108	1,781,746	(19,638)
Operating Expenses	1,650,066	1,569,480	80,586
Operating Income (Loss)	112,042	212,266	(100,224)
Net Non-Operating Income (Loss)	(78,797)	(75,816)	(2,981)
Income (Loss) Before Capital Contributions	33,245	136,450	(103,205)
Grants and Other Contributions	57,457	20,516	36,941
Connection Fees	66,040	88,388	(22,348)
Total Capital Contributions	123,497	108,904	14,593
Change in Net Assets	\$ 156,742	\$ 245,354	\$ (88,612)

The activities of the District are comparable to the prior year. In 2015, the District 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>2018</u>	<u>2017</u>	<u>Amount of Change</u>
Net Cash flows from Operating Activities	\$ 407,594	\$ 286,944	\$ 120,650
Net Cash flows from Investing Activities	5,967	2,108	3,859
Net Cash flows from Capital and Related Financing Activities	(104,605)	(130,262)	25,657
Net Increase in Cash and Cash Equivalents	\$ 308,956	\$ 158,790	\$ 150,166

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 2018 were \$5,945,405, which was an increase of \$156,742 from year-end 2017.
- Net operating cash flows for 2018 were \$473,234, which is up \$186,290 from year-end 2017.

Budget Comparisons

The Department of Local Government requires certain SPGEs to report budgets, amendments, and audits for the public to view. The 2018 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 finished building a new water tank storage tower and saw capital assets increased to \$10,112,047, at year-end 2018. 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. Total debt decreased to \$2,607,600 at year end 2018.

Economic Factors for Next Year

The District anticipates a significant growth in customer count for several years due to the construction of several housing developments. In 2019, the District will begin to phase in an automatic meter reading system that will increase efficiency, and is intended to reduce costs of operations. Also in 2019, the District will begin replacing or repairing service lines in the Carolyn Lane area that are near the end of their expected useful life. Finally, management does not believe that interest rates or market volatility will have a significant impact on operations in 2019.

Contacting Management

This narrative was meant to help the reader better understand the financial position of the District. 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) of the City of Nicholasville, Kentucky as of and for the years ended December 31, 2018 and 2017, 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 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 audits 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, 2018 and 2017, 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, 2018 and 2017, 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 opinions on the financial statements that collectively comprise Jessamine County Water District #1's basic financial statements. 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 basic 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 statements of net assets by funds and activities and changes in net assets by funds are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Lexington, Kentucky
March 5, 2019

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

	2018	2017
ASSETS:		
CURRENT ASSETS:		
Cash	\$ 445,574	\$ 394,410
Accounts receivable	139,526	134,853
Prepaid expenses	6,583	10,504
TOTAL CURRENT ASSETS	591,683	539,767
RESTRICTED CASH ACCOUNTS:		
Customer deposits	140,235	133,054
Reserve accounts for revenue bonds	673,366	490,895
TOTAL RESTRICTED CASH ACCOUNTS	813,601	623,949
PLANT AND DISTRIBUTION SYSTEM:		
Pumping Plant and Distribution System	10,112,047	10,042,784
Less, accumulated depreciation	(3,244,314)	(2,962,622)
NET PLANT AND DISTRIBUTION SYSTEM	6,867,733	7,080,162
OTHER ASSETS:		
Cash - District-designated reserves	465,078	396,938
Unamortized bond costs - net	30,234	32,163
TOTAL OTHER ASSETS	495,312	429,101
TOTAL ASSETS	\$ 8,768,329	\$ 8,672,979
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES:		
Accounts payable and accrued expense	\$ 81,608	\$ 78,933
Sales, utilities and payroll taxes payable	13,185	12,996
Accrued interest	28,536	29,740
Current portion of notes payable	79,200	74,800
Construction loan	-	-
Customer deposits	91,995	80,247
TOTAL CURRENT LIABILITIES	294,524	276,716
LONG-TERM DEBT:		
Notes payable, net of current portion	2,528,400	2,607,600
NET ASSETS:		
Invested in capital assets - net of debt	4,290,367	4,429,925
Restricted	813,601	623,949
Unrestricted - Board-reserved for major maintenance	465,078	396,938
Unrestricted - Unreserved	376,359	337,851
TOTAL NET ASSETS	5,945,405	5,788,663
TOTAL LIABILITIES AND NET ASSETS	\$ 8,768,329	\$ 8,672,979

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,

	2018	2017
REVENUES:		
Water sales	\$ 1,709,567	\$ 1,698,078
Penalties	28,644	32,071
Service charges and miscellaneous	23,897	51,597
TOTAL REVENUES	1,762,108	1,781,746
OPERATING EXPENSES:		
Water purchased	702,494	748,324
Depreciation	281,692	189,107
Office payroll	109,870	105,209
Meter readings and testings	113,367	111,364
Maintenance and repairs	122,895	124,136
Office and miscellaneous	57,050	64,966
Payroll taxes and employee insurance	56,433	47,667
Professional fees	23,785	22,692
Commissioners' salaries	18,000	18,000
Engineering	87,699	63,169
Utilities and telephone	24,133	23,712
Rent	29,710	25,800
Insurance	19,004	20,338
Bad debts	3,934	4,996
TOTAL OPERATING EXPENSES	1,650,066	1,569,480
OPERATING INCOME (LOSS)	112,042	212,266
NON-OPERATING INCOME AND (EXPENSES):		
Interest income	5,967	2,108
Interest expense	(84,764)	(77,924)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	33,245	136,450
GOVERNMENTAL GRANTS AND OTHER CONTRIBUTIONS:		
Grants and Contributions	57,457	20,516
Connection Fees	66,040	88,388
CHANGE IN NET ASSETS	156,742	245,354
NET ASSETS, BEGINNING OF YEAR	5,788,663	5,543,309
NET ASSETS, END OF YEAR	\$ 5,945,405	\$ 5,788,663

See accompanying notes and independent auditors' report.

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Cash and Cash Equivalents:		
Cash Flows from Operating Activities:		
Cash received from customers	\$ 1,753,501	\$ 1,768,593
Cash paid to suppliers and service providers	(1,357,655)	(1,490,195)
Net customer deposits	11,748	8,546
NET CASH FLOWS FROM OPERATING ACTIVITIES	407,594	286,944
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	5,967	2,108
NET CASH FLOWS FROM INVESTING ACTIVITIES	5,967	2,108
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Connection fees and other contributions	123,497	108,904
Capital expenditures	(69,263)	(106,260)
Interest paid	(84,039)	(76,806)
Principal payments under bond obligations	(74,800)	(56,100)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(104,605)	(130,262)
NET INCREASE IN CASH AND CASH EQUIVALENTS	308,956	158,790
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,415,297	1,256,507
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,724,253	\$ 1,415,297
RECONCILIATION OF NET LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss from Operations	\$ 112,042	\$ 212,266
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	281,692	189,107
Bad debts	3,934	4,996
(Increase) Decrease in accounts receivable	(8,607)	(13,153)
(Increase) Decrease in prepaid expenses	3,921	(5,679)
Increase (Decrease) in customer deposits	11,748	8,546
Increase (Decrease) in accounts payable and accruals	2,864	(109,139)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 407,594	\$ 286,944

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 consists 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, 2018 and 2017, 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, 2018 and 2017.

Capital and Operating Grants

The District received \$57,457 and \$20,516 in grants restricted to the purchase or construction of capital assets for the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

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 \$69,263 and \$106,260 and dispositions of \$0 and \$0 were made during the years ended December 31, 2018 and 2017.

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, 2018 and 2017, 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, 2018 and 2017.

Date of Management's Review

The District's subsequent events have been evaluated through March 5, 2019, 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.

NOTE D – LINE OF CREDIT

On February 10, 2017, the District entered into a line of credit agreement with Town Square Bank to draw up to \$1,000,000. On December 29, 2017 this line of credit was increased to \$1,500,000. There were no draws on this line of credit during the year and the balance as of December 31, 2018 was \$0. On December 1, 2018, the line of credit was replaced with a surety bond with a bank that pledged collateral securities in lieu of surety at par value of \$1,300,000, a coupon rate of 3.5% maturing August 1, 2034.

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE E – LONG-TERM DEBT

The District is obligated on debt instruments secured by the water revenues. Balances on the debt obligations as of December 31, 2018 and 2017 are as follows:

	2018	2017
<p>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.</p>	\$ 220,100	\$ 226,400
<p>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.</p>	145,000	166,000
<p>United States Department of Agriculture Rural Development loan in the principal amount of \$945,000, bearing an interest rate of 2.375% annually and commencing October 1, 2016 with first principal payment to be made January 1, 2018 and maturing in January 2055.</p>	932,500	945,000
<p>United States Department of Agriculture Rural Development loan in the principal amount of \$400,000, bearing an interest rate of 2.375% annually and commencing October 1, 2016 with first principal payment to be made January 1, 2018 and maturing in January 2055.</p>	395,000	400,000
<p>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.</p>	915,000	945,000
<p>Total</p>	2,607,600	2,682,400
<p>Less current portion</p>	(79,200)	(74,800)
<p>Total long-term debt</p>	\$ 2,528,400	\$ 2,607,600

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE E – LONG-TERM DEBT - continued

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

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2019	\$ 78,777	\$ 79,200	\$ 157,977
2020	75,815	83,083	158,898
2021	72,699	88,300	160,999
2022	69,391	91,200	160,591
2023	65,947	94,100	160,047
2024-2028	291,981	370,167	662,148
2029-2033	230,845	429,983	660,828
2034-2038	153,971	513,567	667,538
2039-2043	84,141	228,000	312,141
2044-2048	57,475	227,500	284,975
2049-2053	27,550	269,500	297,050
2054-2055	1,449	133,000	134,449
Total Payments	<u>\$1,210,041</u>	<u>\$ 2,607,600</u>	<u>\$ 3,817,641</u>

NOTE F – 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, 2018:

<u>Restricted Cash Accounts</u>	<u>Balance in Account</u>	<u>Required Balance</u>	<u>Excess Balance</u>
Customer Deposits	\$ 140,235	\$ 91,995	\$ 48,240
Revenue Bonds:			
Reserve Fund	502,576	45,000	457,576
Bond and Interest Fund	170,790	54,626	116,164
Board-Designated accounts	<u>465,078</u>	<u>465,078</u>	<u>-</u>
Total Cash in Restricted Accounts	<u>\$ 1,278,679</u>	<u>\$ 656,699</u>	<u>\$ 621,980</u>

NOTE G – 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 \$45,000 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.

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE G – COMPLIANCE WITH BOND ORDINANCES - continued

- 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 H – 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, 2018 and 2017 were \$3,577,455 and \$3,566,511, respectively. Projected project cost is anticipated to total \$3,669,134 which will be funded by grants and loan proceeds. The project was completed during 2018 at a total cost of \$3,577,455, which was under budget by \$91,679. The costs were reclassified to from construction in process and depreciation began during 2018.
- Carolyn Lane - costs to date as of December 31, 2018 and 2017 were \$44,500 and \$35,550, respectively. Projected project cost is anticipated to total \$202,900.

NOTE I – 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 J – 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 \$29,710 and \$25,800 for the years ended December 31, 2018 and 2017, respectively.

SUPPLEMENTAL INFORMATION

JESSAMINE COUNTY WATER DISTRICT #1
STATEMENT OF NET ASSETS BY FUNDS
DECEMBER 31, 2018
(with comparative totals for December 31, 2017)

	Revenue Fund	Operations and Maintenance Fund	Depreciation Fund	Bond and Interest Sinking Fund	Reserve Fund	Construction Fund	Totals 2018	Totals 2017
ASSETS								
CURRENT ASSETS:								
Cash	\$ 159,283	\$ 138,800	\$ 102,529	\$ -	\$ -	\$ 147,491	\$ 548,103	\$ 682,129
Accounts receivable	134,024	5,353	59	90	-	-	139,526	134,853
Prepaid expenses	-	6,583	-	-	-	-	6,583	10,504
TOTAL CURRENT ASSETS	293,307	150,736	102,588	90	-	147,491	694,212	827,486
RESTRICTED CASH ACCOUNTS:	140,235	-	-	170,790	502,576	-	813,601	623,949
PLANT AND DISTRIBUTION SYSTEM:								
Pumping Plant and Distribution System	-	-	-	-	-	10,112,047	10,112,047	10,042,784
Less, accumulated depreciation	-	-	-	-	-	(3,244,314)	(3,244,314)	(2,962,622)
NET PLANT AND DISTRIBUTION SYSTEM	-	-	-	-	-	6,867,733	6,867,733	7,080,162
OTHER ASSETS:								
Cash - District-designated reserve	-	-	362,549	-	-	-	362,549	109,219
Unamortized bond costs - net	-	-	-	-	-	30,234	30,234	32,163
TOTAL OTHER ASSETS	-	-	362,549	-	-	30,234	392,783	141,382
TOTAL ASSETS	\$ 433,542	\$ 150,736	\$ 465,137	\$ 170,880	\$ 502,576	\$ 7,045,458	\$ 8,768,329	8,672,979
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Accounts payable and accrued expense	\$ -	\$ 81,608	\$ -	\$ -	\$ -	\$ -	\$ 81,608	\$ 78,933
Sales, utilities and payroll taxes payable	7,942	5,243	-	-	-	-	13,185	12,996
Accrued interest	-	-	-	28,536	-	-	28,536	29,740
Current portion of notes payable	-	-	-	-	-	79,200	79,200	74,800
Construction loan	-	-	-	-	-	-	-	-
Customer deposits	91,995	-	-	-	-	-	91,995	80,247
TOTAL CURRENT LIABILITIES	99,937	86,851	-	28,536	-	79,200	294,524	276,716
LONG-TERM DEBT:								
Notes payable, net of current portion	-	-	-	-	-	2,528,400	2,528,400	2,607,600
NET ASSETS:								
Fund Balances	333,605	63,885	(1,554,568)	142,344	502,576	2,079,353	1,567,195	1,410,453
Contributions in Aid of Construction	-	-	2,019,705	-	-	2,358,505	4,378,210	4,378,210
TOTAL NET ASSETS	333,605	63,885	465,137	142,344	502,576	4,437,858	5,945,405	5,788,663
TOTAL LIABILITIES AND NET ASSETS	\$ 433,542	\$ 150,736	\$ 465,137	\$ 170,880	\$ 502,576	\$ 7,045,458	\$ 8,768,329	\$ 8,672,979

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, 2018
(with comparative totals for December 31, 2017)

	Revenue Fund	Operations & Maintenance Fund	Depreciation Fund	Bond and Interest Sinking Fund	Reserve Fund	Construction Fund	Eliminations	Totals 2018	Totals 2017
REVENUE:									
Water sales	\$ 1,709,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,709,567	\$ 1,698,078
Penalties	28,644	-	-	-	-	-	-	28,644	32,071
Service charges and miscellaneous	23,897	-	-	-	-	-	-	23,897	51,597
TOTAL REVENUE	1,762,108	-	-	-	-	-	-	1,762,108	1,781,746
OPERATING EXPENSES:									
Water purchased	-	702,494	-	-	-	-	-	702,494	748,324
Depreciation	-	-	-	-	-	281,692	-	281,692	189,107
Office payroll	-	109,870	-	-	-	-	-	109,870	105,209
Meter readings and testings	-	113,367	-	-	-	-	-	113,367	111,364
Maintenance and repairs	-	122,895	-	-	-	-	-	122,895	124,136
Office and miscellaneous	554	51,656	-	700	-	4,140	-	57,050	64,966
Payroll taxes and employee insurance	-	56,433	-	-	-	-	-	56,433	47,667
Professional fees	-	23,785	-	-	-	-	-	23,785	22,692
Commissioners' salaries	-	18,000	-	-	-	-	-	18,000	18,000
Engineering	-	-	42,608	45,091	-	-	-	87,699	63,169
Utilities and telephone	-	24,133	-	-	-	-	-	24,133	23,712
Rent	-	29,710	-	-	-	-	-	29,710	25,800
Insurance	-	19,004	-	-	-	-	-	19,004	20,338
Bad debts	3,934	-	-	-	-	-	-	3,934	4,996
TOTAL OPERATING EXPENSES	4,488	1,271,347	42,608	45,791	-	285,832	-	1,650,066	1,569,480
OPERATING INCOME (LOSS)	1,757,620	(1,271,347)	(42,608)	(45,791)	-	(285,832)	-	112,042	212,266
NON-OPERATING INCOME AND (EXPENSES)									
Interest income	1,991	-	3,330	646	-	-	-	5,967	2,108
Interest expense	(80)	-	-	(82,755)	-	(1,929)	-	(84,764)	(77,924)
INCOME (LOSS) BEFORE GRANTS AND CAPITAL CONTRIBUTIONS	1,759,531	(1,271,347)	(39,278)	(127,900)	-	(287,761)	-	33,245	136,450
GRANTS AND OTHER CONTRIBUTIONS									
Additions to system	-	-	-	-	-	-	-	-	-
Connection fees and meter sales	-	400	65,640	-	-	-	-	66,040	88,388
Contributions in aid of construction	-	-	-	57,457	-	-	-	57,457	20,516
CHANGE IN NET ASSETS	1,759,531	(1,270,947)	26,362	(70,443)	-	(287,761)	-	156,742	245,354
TRANSFERS	(1,756,334)	1,336,649	41,744	103,109	151,099	123,733	-	-	-
NET ASSETS, BEGINNING OF YEAR	330,408	(1,817)	397,031	109,678	351,477	4,601,886	-	5,788,663	5,543,309
NET ASSETS, END OF YEAR	\$ 333,605	\$ 63,885	\$ 465,137	\$ 142,344	\$ 502,576	\$ 4,437,858	\$ -	\$ 5,945,405	\$ 5,788,663

See accompanying notes and independent auditors' report.

Jessamine County Water District #1
 Budgetary Comparison Schedule
 Year Ended December 31, 2018

Revenues	Budget	Actual	Variance
Water sales	\$ 1,850,000	\$ 1,709,567	\$ 140,433
Penalties	34,000	28,644	5,356
Service Charges	41,925	23,897	18,028
Miscellaneous income	600	-	600
Total Revenues	1,926,525	1,762,108	164,417
Operating Expenses			
Water purchased	825,000	702,494	122,506
Gross Profit	1,101,525	1,059,614	41,911
Depreciation	185,000	281,692	(96,692)
Office payroll	110,000	109,870	130
Meter readings	110,000	113,367	(3,367)
Maintenance and repairs	165,000	122,895	42,105
Office and misc.	51,580	57,050	(5,470)
Payroll taxes and insurance	58,800	56,433	2,367
Professional fees	21,500	23,785	(2,285)
Commissioner's salaries	18,000	18,000	-
Engineering	50,000	87,699	(37,699)
Utilities and telephone	25,850	24,133	1,717
Rent	25,800	29,710	(3,910)
Insurance	21,500	19,004	2,496
Bad debts	8,950	3,934	5,016
Total Operating Expenses	851,980	947,572	(95,592)
Operating Income	249,545	112,042	137,503
Non-Operating Income			
Interest income	1,250	5,967	(4,717)
Interest expense	(85,010)	(84,764)	(246)
Income before capital cont.	165,785	33,245	132,540
Grants and contributions	-	57,457	(57,457)
Connection fees	110,600	66,040	44,560
Change in net assets	\$ 276,385	\$ 156,742	\$ 119,643

See accompanying independent auditors' report

BESTEN & DIERUF PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 5, 2019.

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. 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 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.

A handwritten signature in blue ink that reads "Besten + Dief, LLC". The signature is written in a cursive, flowing style.

Lexington, Kentucky
March 5, 2019