

JESSAMINE COUNTY WATER DISTRICT #1
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

BESTEN & DIERUF, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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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 2023 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 Position; a Statement of Activities and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the District and thus provides information about the nature and amount of resources and obligations at year-end.

The Statement of Activities and Changes in Net Position presents the results of the business activities over the course of the fiscal year and information as to how the Net Position changed during the year. All changes in Net Position 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 position is the amount by which assets exceed liabilities. Financial strength is considered to be greater when total net position is increasing over time. Comparing net position over time demonstrates how effectively management is achieving goals with their financial resources. The majority of the District's net position (79%) is invested in capital assets, 8% are restricted and the remaining 14% of net position are unrestricted.

The table below summarizes the net position for the last two years and shows the changes from year to year.

	<u>2023</u>	<u>2022</u>	<u>Amount of Change</u>
Current Assets	\$ 724,793	\$ 615,742	\$ 109,051
Restricted Accounts	1,830,795	1,474,661	356,134
Net Plant and Distribution Systems	11,487,676	6,694,841	4,792,835
Other Assets	<u>93,604</u>	<u>842,373</u>	<u>(748,769)</u>
Total Assets	14,136,868	9,627,617	4,509,251
Current Liabilities	424,545	468,284	(43,739)
Long-Term Debt	<u>3,095,399</u>	<u>2,181,900</u>	<u>913,499</u>
Total Liabilities	3,519,944	2,650,184	869,760
Invested in capital assets - net of debt	8,317,316	4,432,710	3,884,606
Restricted	799,163	946,196	(147,033)
Unrestricted - Board-reserved for major maintenance	383,394	377,508	5,886
Unrestricted - Unreserved	<u>1,068,248</u>	<u>1,221,019</u>	<u>(152,771)</u>
Total Net Assets	\$ 10,568,121	\$ 6,977,433	\$ 3,590,688

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

	<u>2023</u>	<u>2022</u>	<u>Amount of Change</u>
Water sales	\$ 2,560,138	\$ 2,407,311	\$ 152,827
Penalties	30,093	30,645	(552)
Service charges and miscellaneous	<u>75,296</u>	<u>56,586</u>	<u>18,710</u>
Total Revenues	2,665,527	2,494,542	170,985
Operating Expenses	<u>2,586,382</u>	<u>2,205,332</u>	<u>381,050</u>
Operating Income (Loss)	79,145	289,210	(210,065)
Net Non-Operating Income (Loss)	<u>(134,129)</u>	<u>(79,306)</u>	<u>(54,823)</u>
Income (Loss) Before Capital Contributions	(54,984)	209,904	(264,888)
Grants and Other Contributions	1,767,615	64,492	1,703,123
Connection Fees	<u>115,568</u>	<u>126,828</u>	<u>(11,260)</u>
Total Capital Contributions	1,883,183	191,320	1,691,863
Change in Net Assets	\$ 1,828,199	\$ 401,224	\$ 1,426,975

Net income in 2023 and 2022 was boosted by additional water sales from new customers reached. The District had a net loss before capital contributions due to increased depreciation, water purchased, and maintenance.

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 and is summarized in the following table:

	<u>2023</u>	<u>2022</u>	<u>Amount of Change</u>
Net Cash flows from Operating Activities	\$ 441,027	\$ 677,489	\$ (236,462)
Net Cash flows from Investing Activities	45,216	4,733	40,483
Net Cash flows from Capital and Related Financing Activities	<u>(436,667)</u>	<u>(620,252)</u>	183,585
Net Increase in Cash and Cash Equivalents	<u>\$ 49,576</u>	<u>\$ 61,970</u>	<u>\$ (12,394)</u>

The positive net cash flow from operating activities is a strong indicator of financial success. The net decrease in cash flows from capital and related financing activities is primarily due to continued capital improvements and projects and payments on bond obligations.

Financial Highlights

- Net position for year-end 2023 was \$10,568,121, which was an increase of \$3,590,688 from the previous year.
- Net operating cash flows for 2023 were \$441,027, which is down \$236,462 from the previous year.

Budget Comparisons

The District has seen a consistent growth pattern in the past 10 years due to the development of the Brannon Crossing area. Budget has increased accordingly each year to represent this growth. Very little slowdown has been witnessed in 2023 with more projects scheduled.

Capital Assets and Debt Administration

District finished Carolyn Lane / Vincewood waterline replacement in 2023. Debt increased from the Rural Development loan that helped finance this project. District continued replacing meters with the auto reader meters.

Economic Factors for Next Year

The District anticipates continuing growth in customer count for the next several years due to the several different developments proposed in our district. Meade Court waterline upgrade is to be completed in 2024, it was funded through the Cleaner Water fund grant. The Water District will be moving the 8” waterline on West Brannon Road to make way for the widening of that section of road. Most of that line replacement will be funded by the Kentucky Road Department. The District is in the early stages of developing plans to upgrade a section of 3” line on Ash Grove Road, Burton Lane, and Catnip Hill Road. These lines are over 55 years old and need to be replaced. The District is also looking at funding a new office location to accommodate the need for more storage area as well as an additional employee hire. The District has no evidence of a slowdown in growth from the higher interest rates.

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

Opinions

We have audited the accompanying financial statements of Jessamine County Water District #1 of the City of Nicholasville, Kentucky, (the District) as of and for the year ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

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, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note A, the financial statements present only the District and do not purport to, and do not, present fairly the financial position of the City of Nicholasville, Kentucky, as of December 31, 2023 and 2022, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2024, 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, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the District's 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 District's internal control over financial reporting and compliance.



Lexington, Kentucky
July 2, 2024

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

	2023	2022
ASSETS		
CURRENT ASSETS:		
Cash	\$ 437,222	\$ 366,272
Accounts receivable, net	267,737	237,513
Prepaid expenses	19,834	11,957
TOTAL CURRENT ASSETS	724,793	615,742
RESTRICTED AND DESIGNATED CASH:		
Designated cash	648,238	528,465
Cash restricted for customer deposits	216,583	208,339
Certificates of deposit - designated	383,394	377,508
Reserve accounts for revenue bonds	582,580	737,857
TOTAL RESTRICTED AND DESIGNATED CASH	1,830,795	1,852,169
CAPITAL ASSETS:		
Utility plant and equipment	16,207,517	11,169,784
Construction in process	109,825	451,396
Less: accumulated depreciation	(4,829,666)	(4,474,943)
NET CAPITAL ASSETS	11,487,676	7,146,237
OTHER ASSETS:		
Right of use assets	100,855	-
Accumulated amortization on right of use assets	(18,791)	-
Unamortized bond costs - net	11,540	13,469
TOTAL OTHER ASSETS	93,604	13,469
TOTAL ASSETS	\$ 14,136,868	\$ 9,627,617
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued expense	\$ 110,831	\$ 184,153
Sales, utilities and payroll taxes payable	26,589	17,722
Accrued interest	30,240	33,003
Current portion of notes payable	86,501	93,700
Current portion of operating lease liabilities payable	33,022	-
Customer deposits	137,362	139,706
TOTAL CURRENT LIABILITIES	424,545	468,284
LONG-TERM DEBT:		
Operating lease liabilities payable, net of current portion	48,803	-
Notes payable, net of current portion	3,095,399	2,181,900
TOTAL LIABILITIES	3,568,747	2,650,184
NET POSITION:		
Invested in capital assets - net of debt	8,317,316	4,432,710
Restricted	799,163	946,196
Unrestricted - Board - reserved for major maintenance	383,394	377,508
Unrestricted - Unreserved	1,068,248	1,221,019
TOTAL NET POSITION	10,568,121	6,977,433
TOTAL LIABILITIES AND NET POSITION	\$ 14,136,868	\$ 9,627,617

See accompanying notes and independent auditors' report.

JESSAMINE COUNTY WATER DISTRICT #1
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,

	2023	2022
REVENUES:		
Water sales	\$ 2,560,138	\$ 2,407,311
Penalties	30,093	30,645
Service charges and miscellaneous	75,296	56,586
TOTAL REVENUES	2,665,527	2,494,542
OPERATING EXPENSES:		
Water purchased	1,146,723	1,075,232
Depreciation	467,021	329,836
Amortization on right of use assets	18,791	-
Office payroll	118,400	105,560
Meter readings and testings	138,234	147,820
Maintenance and repairs	239,060	166,963
Office and miscellaneous	85,622	96,054
Payroll taxes and employee insurance	56,027	45,421
Professional fees	42,437	44,684
Commissioners' salaries	18,000	18,000
Engineering	180,981	88,700
Utilities and telephone	32,401	32,839
Rent	11,850	28,559
Insurance	28,060	23,915
Bad debts	2,775	1,749
TOTAL OPERATING EXPENSES	2,586,382	2,205,332
OPERATING INCOME (LOSS)	79,145	289,210
NON-OPERATING INCOME AND (EXPENSES):		
Interest income	45,216	4,733
Interest expense	(179,345)	(84,039)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(54,984)	209,904
GOVERNMENTAL GRANTS AND OTHER CAPITAL CONTRIBUTIONS:		
Connection fees	115,568	126,828
Grants and contributions	1,767,615	64,492
TOTAL GOVERNMENTAL GRANTS AND OTHER CAPITAL CONTRIBUTIONS	1,883,183	191,320
CHANGE IN NET POSITION	1,828,199	401,224
NET POSITION, BEGINNING OF YEAR	6,977,433	6,576,209
ADJUSTMENT FOR NET CAPITAL PREVIOUSLY EXPENSED	1,762,489	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	8,739,922	-
NET POSITION, END OF YEAR	\$ 10,568,121	\$ 6,977,433

See accompanying notes and independent auditors' report.

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

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 2,630,184	\$ 2,461,452
Cash paid to suppliers and employees	(2,189,157)	(1,783,963)
NET CASH FLOWS FROM OPERATING ACTIVITIES	441,027	677,489
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	45,216	4,733
NET CASH FLOWS FROM INVESTING ACTIVITIES	45,216	4,733
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Connection fees and other contributions	146,826	191,320
Purchases of capital assets and construction in process	(1,309,614)	(648,412)
Interest paid	(180,179)	(72,360)
Issuance of bond payable	1,000,000	-
Principal payments under bond obligations	(93,700)	(90,800)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(436,667)	(620,252)
NET CHANGE IN CASH AND CASH EQUIVALENTS	49,576	61,970
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,218,441	2,156,471
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,268,017	\$ 2,218,441
 RECONCILIATION OF OPERATING NET INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (Loss) from Operations	\$ 79,145	\$ 289,210
Adjustments to reconcile income (loss) from operations to net cash flows from operating activities:		
Depreciation and amortization	485,812	329,836
Bad debts	2,775	1,749
Interest on operating leases	990	-
(Increase) Decrease in accounts receivable	(32,999)	(42,937)
(Increase) Decrease in prepaid expenses	(7,877)	(1,649)
Increase (Decrease) in customer deposits	(2,344)	9,847
Increase (Decrease) in accounts payable and accruals	(64,455)	91,433
Increase (Decrease) in operating lease liabilities	(20,020)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 441,027	\$ 677,489
 SUPPLEMENTAL CASH FLOW INFORMATION		
Fair value of contributed capital assets	\$ 1,736,357	\$ -
Conversion of construction in process to capital assets	\$ 451,396	\$ -

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 24.

Cash and Cash Equivalents

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

Accounts Receivable

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, 2023 and 2022, 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, 2023 and 2022.

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 each of the years ended December 31, 2023 and 2022.

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.

Interfund Transfers

During the course of its operations, the District has transactions between funds to finance operations, provide services, construct assets, and service debt. Transfers from funds receiving revenues to funds through which the resources are to be expended are classified as transfers.

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, 2023 and 2022, management of the District has no uncertain tax positions that qualify for disclosure in the financial statements.

Leased Assets and Liabilities

GASB Statement No. 87, Leases, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources.

Date of Management's Review

The District's subsequent events have been evaluated through July 2, 2024, which is the date the financial statements were available to be issued.

NOTE B - CASH AND CASH EQUIVALENTS

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.

During the years ended 2023 and 2022, the District's deposits and investments at times exceeded amounts covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. The District has not experienced any losses on such accounts and does not believe that it is subject to significant credit risk related to the accounts.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District's policy will attempt to match its investments with anticipated cash flow requirements.

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

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE B - CASH AND CASH EQUIVALENTS - continued

The following presents the cash and certificate of deposit balances as shown on the statements of net position at December 31, 2023 and 2022:

<u>As of December 31, 2023</u>	Board			<u>Total</u>
	<u>Unrestricted</u>	<u>Designated</u>	<u>Restricted</u>	
Revenue fund	\$ 176,084	\$ -	\$ 216,583	\$ 392,667
Operation and maintenance fund	204,497	-	-	204,497
Bond and interest fund	52,141	-	126,301	178,442
Reserve fund	-	-	456,279	456,279
Depreciation and maintenance fund	-	1,031,632	-	1,031,632
Construction fund-water	4,500	-	-	4,500
Total	<u>\$ 437,222</u>	<u>\$ 1,031,632</u>	<u>\$ 799,163</u>	<u>\$ 2,268,017</u>

<u>As of December 31, 2022</u>	Board			<u>Total</u>
	<u>Unrestricted</u>	<u>Designated</u>	<u>Restricted</u>	
Revenue fund	\$ 158,198	\$ -	\$ 208,339	\$ 366,537
Operation and maintenance fund	109,871	-	-	109,871
Bond and interest fund	-	-	163,248	163,248
Reserve fund	-	-	574,609	574,609
Depreciation and maintenance fund	-	905,973	-	905,973
Construction fund-water	98,203	-	-	98,203
Total	<u>\$ 366,272</u>	<u>\$ 905,973</u>	<u>\$ 946,196</u>	<u>\$ 2,218,441</u>

NOTE C - INSURANCE AND RISK MANAGEMENT

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

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT

The District is obligated on debt instruments secured by the water revenues. Balances on the debt obligations as of December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
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.	\$ 191,400	\$ 199,100
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 2024.	12,000	42,000
Kentucky Rural Water Finance Corporation Public Projects Refunding Bonds Series 2012 E with par amount of \$1,080,000 and an average coupon rate of 3.54% maturing in 2043.	750,000	785,000
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 made January 1, 2018 and maturing in January 2055.	862,500	877,500
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 made January 1, 2018 and maturing in January 2055.	366,000	372,000
United States Department of Agriculture loan in the principal amount of 1,000,000, bearing an interest rate of 2.125% annually and commencing January 1, 2024 with first principal payment made January 1, 2024 and maturing in January 2063.	<u>1,000,000</u>	<u>-</u>
Total	<u>3,181,900</u>	<u>2,275,600</u>
Less current portion	<u>(86,501)</u>	<u>(93,700)</u>
Total long-term debt	<u>\$ 3,095,399</u>	<u>\$ 2,181,900</u>

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE D - LONG-TERM DEBT - continued

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 93,100	\$ 86,501	\$ 179,601
2025	82,000	83,780	165,780
2026	89,400	81,337	170,737
2027	90,400	78,681	169,081
2028	92,800	75,976	168,776
2029-2033	518,100	334,970	853,070
2034-2038	609,900	247,143	857,043
2039-2043	385,700	157,603	543,303
2044-2048	356,500	116,168	472,668
2049-2053	411,500	72,026	483,526
2054-2058	278,500	30,158	308,658
2059-2063	174,000	11,199	185,199
Total Payments	<u>\$ 3,181,900</u>	<u>\$ 1,375,541</u>	<u>\$ 4,557,441</u>

NOTE E - 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. 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.

NOTE F - RESTRICTED ASSETS

The restricted assets in the accompanying financial statements are restricted by ordinance, external parties or by board designation. The following schedules set forth restricted assets as of December 31, 2023 and 2022:

<u>Restricted and Designated Cash at</u> <u>12/31/23</u>	<u>Balance in</u> <u>Account</u>	<u>Required</u> <u>Balance</u>	<u>Excess Balance</u>
Customer Deposits	\$ 216,583	\$ 137,362	\$ 79,221
Revenue Bonds:			
Reserve Fund	456,279	45,000	411,279
Bond and Interest Fund	126,301	110,818	15,483
Board-Designated accounts	<u>1,031,632</u>	<u>1,031,632</u>	<u>-</u>
Total Cash in Restricted Accounts	<u>\$ 1,830,795</u>	<u>\$ 1,324,812</u>	<u>\$ 505,983</u>

<u>Restricted and Designated Cash at</u> <u>12/31/22</u>	<u>Balance in</u> <u>Account</u>	<u>Required</u> <u>Balance</u>	<u>Excess Balance</u>
Customer Deposits	\$ 208,339	\$ 139,706	\$ 68,633
Revenue Bonds:			
Reserve Fund	574,609	45,000	529,609
Bond and Interest Fund	163,248	110,818	52,430
Board-Designated accounts	<u>905,973</u>	<u>905,973</u>	<u>-</u>
Total Cash in Restricted Accounts	<u>\$ 1,852,169</u>	<u>\$ 1,201,497</u>	<u>\$ 650,672</u>

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

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.
- 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.

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE H - CAPITAL ASSETS

The District made capital acquisitions of \$5,127,981 and \$648,412 and dispositions of -\$431,819 and \$0 were made during the years ended December 31, 2023 and 2022, respectively. The following is a summary of capital asset activity during the year:

	<u>Balance</u> <u>12/31/2022</u>	<u>Additions</u>	<u>Disposals/</u> <u>Transfers</u>	<u>Balance</u> <u>12/31/2023</u>
Capital assets not depreciated:				
Construction in progress	\$ 451,396	\$ 109,825	\$ (451,396)	\$ 109,825
Total not depreciated	451,396	109,825	(451,396)	109,825
Capital assets being depreciated:				
Land	2,500	10,000	-	12,500
Utility plant/distribution system	5,823,549	4,793,871	257,402	10,874,822
Meter and meter installations	1,087,751	212,575	(237,825)	1,062,501
Transportation	3,692,281	-	-	3,692,281
Equipment	35,611	1,710	-	37,321
Services	528,092	-	-	528,092
Total depreciable	11,169,784	5,018,156	19,577	16,207,517
Accumulated depreciation				
Accumulated depreciation	(4,474,943)	(467,021)	112,298	(4,829,666)
Total accumulated depreciation	(4,474,943)	(467,021)	112,298	(4,829,666)
Net depreciable assets	6,694,841	4,551,135	131,875	11,377,851
Total capital assets, net	<u>\$ 7,146,237</u>	<u>\$ 4,660,960</u>	<u>\$ (319,521)</u>	<u>\$ 11,487,676</u>
	<u>12/31/2021</u>	<u>Additions</u>	<u>Transfers</u>	<u>12/31/2022</u>
Capital assets not depreciated:				
Construction in progress	\$ -	\$ 451,396	\$ -	\$ 451,396
Total not depreciated	-	451,396	-	451,396
Capital assets being depreciated:				
Land	2,500	-	-	2,500
Utility plant/distribution system	5,823,549	-	-	5,823,549
Meter and meter installations	890,735	197,016	-	1,087,751
Transportation	3,692,281	-	-	3,692,281
Equipment	35,611	-	-	35,611
Services	528,092	-	-	528,092
Total depreciable	10,972,768	197,016	-	11,169,784
Accumulated depreciation				
Accumulated depreciation	(4,145,107)	(329,836)	-	(4,474,943)
Total accumulated depreciation	(4,145,107)	(329,836)	-	(4,474,943)
Net depreciable assets	6,827,661	(132,820)	-	6,694,841
Total capital assets, net	<u>\$ 6,827,661</u>	<u>\$ 318,576</u>	<u>\$ -</u>	<u>\$ 7,146,237</u>

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE I - 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:

- Carolyn Lane and Vincewood Water Line Upgrade - this project began during 2022 and total costs as of December 31, 2023 were \$109,825.

NOTE J - 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.

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, 2023 and 2022.

NOTE K - LEASED ASSETS AND LIABILITIES

The District accounts for leases in accordance with GASB 87. The District is a lessee on a noncancellable operating leases for office space. Leases are evaluated using the criteria outlined in GASB 87 to determine whether they will be classified as operating leases or finance leases. The District determines if an arrangement is a lease, or contains a lease, at inception of a contract and when terms of an existing contract are changed. The District determines if an arrangement conveys the right to use an identified asset and whether the District obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. The District recognizes a lease liability and right of use (ROU) asset at the commencement date of the lease.

Lease liabilities - A lease liability is measured based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or rate and are measured using the index or rate at the commencement date. Lease payments, including variable payments made based on an index rate, are remeasured when any of the following occur: (1) the lease is modified (and the modification is not accounted for as a separate contract), (2) certain contingencies related to variable lease payments are resolved, or (3) there is a reassessment of any of the following: the lease term, purchase options, or amounts that are probable of being owed under a residual value guarantee.

The discount rate is the rate implicit in the lease if it is readily determinable; otherwise, the District uses its incremental borrowing rate. The implicit rates of the District's leases are not readily determinable; accordingly, the District uses its incremental borrowing rate based on the information available at the commencement date for each lease. The District's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment and geographic location. The District determines its incremental borrowing rates by starting with the interest rates on recent borrowings and other observable market rates and adjusting those rates to reflect differences in the amount of collateral and the payment terms of the leases.

ROU assets - A ROU asset is measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued lease payments, less the unamortized balance of lease incentives received). Lease cost for lease payments is recognized on a straight-line basis over the lease term. Finance lease ROU assets are amortized on a straight-line basis over the shorter of the lease term or the remaining useful life of the asset.

JESSAMINE COUNTY WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS

NOTE K - LEASED ASSETS AND LIABILITIES – continued

Accounting policy election for short-term leases - The District has elected for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less, but greater than 1 month at lease commencement, and do not include an option to purchase the underlying asset that the District is reasonably certain to exercise. The District recognizes lease cost associated with its short-term leases on a straight-line basis over the lease term.

Leases - The District has an obligation as a lessee for office space with a 3-year term effective June 1, 2023 and expiring May 31, 2026. The lease calls for monthly payments in the amount of \$2,947.

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

Leased Assets by Group	<u>December 31,</u>		<u>December 31,</u>	
	<u>2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>2023</u>
Office lease	\$ -	\$ 100,855	\$ -	\$ 100,855
Total leased assets	-	100,855	-	100,855
Less accumulated amortization	-	(18,791)	-	(18,791)
Total leased assets, net	<u>\$ -</u>	<u>\$ 82,064</u>	<u>\$ -</u>	<u>\$ 82,064</u>

Lease agreements and liabilities are summarized as follows:

Group	Date of Lease	Payment Terms	Annual Payment	Annual Interest Rate	Total Lease Liability	Balance at
						December 31, 2022
Office lease	5/1/2023	3 years	35,360	3.50%	\$ 100,855	\$ 81,825

Annual requirements to amortize long-term lease obligations and related interest are as follows:

Year Ending	Principal	Interest	Total
2024	\$ 33,022	\$ 2,337	\$ 35,359
2025	34,197	1,163	35,360
2026	14,606	125	14,731
Total	<u>\$ 81,825</u>	<u>\$ 3,625</u>	<u>\$ 85,450</u>

The District classifies this lease as an operating lease because the District is not reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments used to determine the lease liabilities.

NOTE L – ADJUSTMENT TO RETAINED EARNINGS

During 2023, an adjustment was made to capitalize previously expensed services in the amount of \$2,082,010 with associated depreciation of \$319,251 for a net adjustment of \$1,762,489.

SUPPLEMENTAL INFORMATION

Jessamine County Water District #1
Statement of Revenues and Expenses - Actual to Budget
Year Ended December 31, 2023

Revenues	Budget	Actual	Variance
Water sales	\$ 2,545,611	\$ 2,560,138	\$ (14,527)
Penalties	28,931	30,093	(1,162)
Service charges and miscellaneous	73,646	75,296	(1,650)
Total Revenues	2,648,188	2,665,527	(17,339)
Operating Expenses			
Water purchased	1,023,810	1,146,723	(122,913)
Gross Profit	1,624,378	1,518,804	105,574
Depreciation	-	467,021	(467,021)
Amortization of right of use assets	-	18,791	(18,791)
Office payroll	103,237	118,400	(15,163)
Meter readings	156,483	138,234	18,249
Maintenance and repairs	459,202	239,060	220,142
Office and misc.	103,511	85,622	17,889
Payroll taxes and insurance	52,516	56,027	(3,511)
Professional fees	42,136	42,437	(301)
Commissioners' salaries	18,000	18,000	-
Engineering	183,476	180,981	2,495
Utilities and telephone	32,720	32,401	319
Rent	38,244	11,850	26,394
Insurance	27,591	28,060	(469)
Bad debts	3,137	2,775	362
Total Operating Expenses	1,220,253	1,439,659	(219,406)
Operating Income	404,125	79,145	324,980
Non-Operating Income			
Interest income	41,827	45,216	(3,389)
Interest expense	(47,600)	(179,345)	131,745
Income before capital cont.	398,352	(54,984)	453,336
Grants and contributions	37,510	1,767,615	(1,730,105)
Connection fees	131,482	115,568	15,914
Change in net assets	\$ 567,344	\$ 1,828,199	\$ (1,260,855)

See accompanying independent auditors' report



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 financial statements Jessamine County Water District #1 (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 2, 2024.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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.



Lexington, Kentucky
July 2, 2024