

**JONATHAN CREEK
WATER DISTRICT
AUDIT REPORT**

December 31, 2013

AUDIT REPORT

of the

JONATHAN CREEK WATER DISTRICT

For the fiscal year ended

DECEMBER 31, 2013

KIM HAM

CERTIFIED PUBLIC ACCOUNTANT

TAXES ♦ BOOKKEEPING ♦ AUDITING ♦ PAYROLL ♦ CONSULTING

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75 Vine Street
Benton, KY 42025

(270) 527-3628
(270) 527-2261 fax

<kimhamcpa@hotmail.com>

KIM HAM

CERTIFIED PUBLIC ACCOUNTANT

TAXES ♦ BOOKKEEPING ♦ AUDITING ♦ PAYROLL ♦ CONSULTING

MEMBER,
American Institute
of CPA's

♦
MEMBER,
Kentucky Society
of CPA's

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the Jonathan Creek Water District, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Jonathan Creek Water District as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information is 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*, I have also issued my report dated March 27, 2014, on my consideration of the Jonathan Creek Water District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Jonathan Creek Water District's internal control over financial reporting and compliance.



Benton, Kentucky
March 27, 2014

JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

The management of Jonathan Creek Water District (JCWD) provides readers of our financial statements this narrative that is an overview and analysis of the district's performance for the year ended December 31, 2013. It is to be read in conjunction with the financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

JCWD's net position increased by \$96,471 as a result of this year's operations.

Operating revenues decreased by \$87,446 (9.6%).

Operating expenses, excluding depreciation, increased by \$86,742 (17.3%).

Net income before capital contributions decreased by \$156,004 (72.5%).

HOW TO USE THE ANNUAL REPORT

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

THE STATEMENT OF NET POSITION

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

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

THE STATEMENT OF CASH FLOWS

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

JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

FINANCIAL INFORMATION

Condensed Statement of Net Position

	<u>CY 2013</u>	<u>CY2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	\$ 250,926	\$ 276,585	\$ (25,659)	(9.3)
Restricted Assets	29,156	28,771	385	1.3
Capital Assets	<u>3,464,907</u>	<u>3,519,260</u>	<u>(54,353)</u>	<u>(1.5)</u>
Total Assets	<u>\$ 3,744,989</u>	<u>\$ 3,824,616</u>	<u>\$ (79,627)</u>	<u>(2.1)</u>
Current Liabilities	\$ 357,922	\$ 287,540	\$ 70,382	24.5
Long-term Liabilities	<u>275,924</u>	<u>505,048</u>	<u>(229,124)</u>	<u>(45.4)</u>
Total Liabilities	<u>\$ 633,846</u>	<u>\$ 792,588</u>	<u>\$ (158,742)</u>	<u>(20.0)</u>
Deferred Inflows of Resources	<u>\$ 20,249</u>	<u>\$ 37,605</u>	<u>\$ (17,356)</u>	<u>(46.2)</u>
Net Investment in Capital				
Assets	\$ 2,906,021	\$ 2,724,985	\$ 181,036	6.6
Restricted Assets, net	17,280	17,083	197	1.2
Unrestricted Assets	<u>167,593</u>	<u>252,355</u>	<u>(84,762)</u>	<u>(33.6)</u>
Net Position	<u>\$ 3,090,894</u>	<u>\$ 2,994,423</u>	<u>\$ 96,471</u>	<u>3.2</u>

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

**JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**
December 31, 2013

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>CY2013</u>	<u>CY2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenue	\$ 823,232	\$ 910,678	\$ (87,446)	(9.6)
Non-operating Revenue	26,688	18,464	8,224	44.5
Capital grant proceeds	<u>37,280</u>	<u>0</u>	<u>37,280</u>	<u>N/A</u>
Total Revenue	<u>\$ 887,200</u>	<u>\$ 929,142</u>	<u>\$ (41,942)</u>	<u>(4.5)</u>
Operating Expenses	\$ 756,341	\$ 663,853	\$ 92,488	13.9
Non-operating Expenses	<u>34,388</u>	<u>50,094</u>	<u>(15,706)</u>	<u>(31.4)</u>
Total Expenses	<u>\$ 790,729</u>	<u>\$ 713,947</u>	<u>\$ 76,782</u>	<u>10.8</u>
Change in Net Position	\$ 96,471	\$ 215,195	\$ (118,724)	(55.2)
Beginning Net Position	<u>2,994,423</u>	<u>2,779,228</u>	<u>215,195</u>	<u>7.7</u>
Ending Net Position	<u>\$ 3,090,894</u>	<u>\$ 2,994,423</u>	<u>\$ 96,471</u>	<u>3.2</u>

Operating revenues decreased from the previous year due to a decrease in gallons sold to customers by 13%. Operating expenses increased over the prior year primarily due to more repairs than normal. The district received a grant to purchase a generator. The grant funds were handled by the fiscal court and the district was required to pay only 13% of the cost of the generator under the terms of the grant.

CAPITAL ASSETS AND LONG-TERM DEBT

JCWD's expenditures for plant, lines and other facilities were \$115,014 in CY 2013, compared to \$120,344 in CY 2012. The entire \$42,850 cost of the generator is included in the current year expenditures, although the actual amount spent was only \$5,570, due to the grant proceeds of \$37,280 covering the remainder.

Debt payments were made as scheduled throughout the year. The District obtained a loan with CFSB at 4% in order to pay off loans with Berkadia at 5%. The new loan will still have the same final maturity date, but will save \$10,503 interest over the remaining term of the loan.

JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

BUDGETARY CONTROLS

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

Statement of Revenues, Expenses, and Changes in Net Position to Budget
For the Twelve Months Ended December 31, 2013

	Actual	Budget	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Charges for services	\$ 787,994	\$ 800,000	\$ (12,006)	(1.5)
Penalties, late charges, and other	35,238	36,000	(762)	(2.1)
Total Operating Revenues	<u>823,232</u>	<u>836,000</u>	<u>(12,768)</u>	<u>(1.5)</u>
Operating Expenses:				
Salaries	190,813	166,000	24,813	14.9
Employee pension and benefits	82,808	63,000	19,808	31.4
Fuel and power for pumping	80,080	70,000	10,080	14.4
Materials and supplies	96,810	60,000	36,810	61.4
Chemicals	6,788	9,000	(2,212)	(24.6)
Transportation & training	27,362	16,000	11,362	71.0
Depreciation	169,367	153,000	16,367	10.7
Insurance	25,245	21,000	4,245	20.2
Professional fees & outside services	53,100	33,100	20,000	60.4
Dues	1,071	0	1,071	N/A
Utility Regulatory Expense	1,626	1,500	126	8.4
Payroll taxes	12,734	13,000	(266)	(2.0)
Equipment rent	0	1,000	(1,000)	(100.0)
Advertising	218	1,000	(782)	(78.2)
Loan service expense	3,087	2,000	1,087	54.4
Bad debt expense	2,828	3,000	(172)	(5.7)
Miscellaneous	2,404	1,500	904	60.3
Total operating expenses	<u>756,341</u>	<u>614,100</u>	<u>142,241</u>	<u>23.2</u>
Income from operations	<u>66,891</u>	<u>221,900</u>	<u>(155,009)</u>	<u>(69.9)</u>
Non-operating revenues (expenses):				
Interest income	672	4,500	(3,828)	(85.1)
Proceeds from sale of surplus	8,660	0	8,660	N/A
Interest and bond discount expense	(34,388)	(73,230)	38,842	53.0
Amortization of debt discount and expense	17,356	17,000	356	2.1
Total non-operating revenues (expenses)	<u>(7,700)</u>	<u>(51,730)</u>	<u>44,030</u>	<u>85.1</u>
Net income (loss) before contributions	59,191	170,170	(110,979)	(65.2)
Capital grant proceeds	37,280	0	37,280	N/A
Change in net position	<u>96,471</u>	<u>170,170</u>	<u>(73,699)</u>	<u>(43.3)</u>
Net position January 1, 2013	<u>2,994,423</u>	<u>2,994,423</u>	<u>0</u>	<u>0.0</u>
Net position December 31, 2013	<u>\$ 3,090,894</u>	<u>\$ 3,164,593</u>	<u>\$ (73,699)</u>	<u>(2.3)</u>

JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

OTHER SIGNIFICANT MATTERS

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

Questions or comments regarding these financial reports may be directed to Larry Conner, Chairman at 270-354-8474.

JONATHAN CREEK WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2013 and 2012

ASSETS:	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and cash equivalents	\$ 140,894	\$ 167,623
Customer accounts receivable, less allowance for doubtful accounts of \$5,596	60,242	63,877
Other receivables	0	6,176
Materials & supplies inventory	37,195	36,495
Prepaid expenses	12,595	2,414
Total Current Assets	<u>250,926</u>	<u>276,585</u>
Restricted Assets:		
Cash and cash equivalents	<u>29,156</u>	<u>28,771</u>
Total Restricted Assets	<u>29,156</u>	<u>28,771</u>
Noncurrent Assets:		
Capital assets	7,017,257	6,902,243
Less: Accumulated depreciation	<u>(3,552,350)</u>	<u>(3,382,983)</u>
Total Noncurrent Assets	<u>3,464,907</u>	<u>3,519,260</u>
Total Assets	<u><u>\$ 3,744,989</u></u>	<u><u>\$ 3,824,616</u></u>
LIABILITIES:		
Current Liabilities (payable from current assets):		
Accounts payable	\$ 65,148	\$ 11,659
Accrued interest payable	6,289	3,071
Accrued liabilities	11,982	9,738
Current portion of long-term debt	<u>262,713</u>	<u>251,622</u>
Total Current Liabilities (payable from current assets)	<u>346,132</u>	<u>276,090</u>
Current Liabilities (payable from restricted assets):		
Customer deposits	<u>11,790</u>	<u>11,450</u>
Total Current Liabilities (payable from restricted assets)	<u>11,790</u>	<u>11,450</u>
Noncurrent Liabilities:		
Note payable, less current maturities	<u>275,924</u>	<u>505,048</u>
Total Noncurrent Liabilities	<u>275,924</u>	<u>505,048</u>
Total Liabilities	<u><u>\$ 633,846</u></u>	<u><u>\$ 792,588</u></u>
DEFERRED INFLOWS OF RESOURCES:		
Gain on refinancing	<u>\$ 20,249</u>	<u>\$ 37,605</u>
Total Deferred Inflows of Resources	<u><u>\$ 20,249</u></u>	<u><u>\$ 37,605</u></u>
NET POSITION:		
Net investment in capital assets	\$ 2,906,021	\$ 2,724,985
Restricted for:		
Customer deposits	17,280	17,083
Unrestricted		
Unreserved	<u>167,593</u>	<u>252,355</u>
Total Net Position	<u><u>\$ 3,090,894</u></u>	<u><u>\$ 2,994,423</u></u>

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Water Sales, net	\$ 801,099	\$ 886,705
Other service revenue	22,133	23,973
Total Operating Revenues	823,232	910,678
OPERATING EXPENSES:		
Salaries and benefits	262,155	265,917
Utilities	80,080	66,383
Maintenance and supplies	96,810	57,954
Chemicals	6,788	6,956
Transportation and training	27,362	24,989
Depreciation expense	169,367	163,621
Insurance expense	25,245	23,299
Professional fees & outside services	53,100	21,303
Utility regulatory assessment	1,626	1,529
Dues	1,071	1,071
Commissioners' fees	24,200	24,200
Advertising	218	821
Loan service fees	3,087	1,178
License and permits	1,490	0
Miscellaneous	914	377
Bad debt expense	2,828	4,255
Total Operating Expenses	756,341	663,853
Operating Income (Loss)	66,891	246,825
NON-OPERATING REVENUES (EXPENSES):		
Interest and dividend income	672	1,108
Amortization of debt discount and expense	17,356	17,356
Proceeds from sale of surplus	8,660	0
Interest expense	(34,388)	(50,094)
Total Non-operating Revenues (Expenses)	(7,700)	(31,630)
Net income (loss) before contributions	59,191	215,195
CONTRIBUTED CAPITAL:		
Capital grant proceeds	37,280	0
Change in net position	96,471	215,195
Net Position, beginning of year	2,994,423	2,779,228
Net Position, end of year	\$ 3,090,894	\$ 2,994,423

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Years Ended December 31, 2013 and 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	2013	2012
Cash received from:		
Customers	\$ 804,298	\$ 870,838
Other service revenue	22,133	23,973
Cash paid for:		
Salaries and benefits	(261,963)	(266,271)
Utilities	(74,530)	(71,672)
Maintenance and supplies	(79,566)	(72,406)
Chemicals	(5,759)	(8,114)
Transportation expenses	(24,373)	(25,775)
Insurance	(35,426)	(23,256)
Professional Fees & outside services	(27,968)	(23,872)
Dues, Taxes and licenses	(3,116)	(2,600)
Commissioners' fees	(24,200)	(24,200)
Advertising	0	(866)
Loan service fees	(3,087)	(1,178)
Miscellaneous	(914)	(377)
Net cash provided by (used in) operating activities	285,529	374,224
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(109,282)	(120,344)
Capital grant proceeds	37,280	0
Proceeds from sale of surplus	8,660	0
Proceeds of long-term debt	336,222	0
Principal paid on bonds and other long-term debt	(554,255)	(237,970)
Interest paid on bonds and other long-term debt	(31,170)	(51,018)
Net cash provided by (used in) capital and related financing activities	(312,545)	(409,332)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earnings	672	1,108
Net cash provided by (used in) investing activities	672	1,108
Net Increase (Decrease) in Cash and Cash Equivalents	(26,344)	(34,000)
Cash & Cash Equivalents - January 1, 2013	196,394	230,394
Cash & Cash Equivalents - December 31, 2013	\$ 170,050	\$ 196,394
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 66,891	\$ 246,825
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	169,367	163,621
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	3,635	(11,444)
Decrease (increase) in other receivables	6,176	(6,176)
Decrease (increase) in materials & supplies inventory	(700)	(7,459)
Decrease (increase) in prepaid expenses	(10,181)	43
Increase (decrease) in accounts payable	47,757	(10,664)
Increase (decrease) in accrued liabilities	2,244	(657)
Increase (decrease) in customer deposits	340	135
Net cash provided by operating activities	\$ 285,529	\$ 374,224

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Jonathan Creek Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In March, 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or resources or inflows or resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The District had one item that was previously listed as a liability that is now classified as a deferred inflow of resources. The impact on the financial statements was not material.

The more significant of Jonathan Creek Water District's accounting policies are described hereinafter.

A. Reporting Entity

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

B. Basis of Accounting

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

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting (Continued)

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

C. Cash and Cash Equivalents

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

D. Contributed Capital and Construction Grants

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

E. Capital Assets

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

Estimated useful lives on depreciable assets are as follows:

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

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

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capitalized Interest

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

G. Debt Discount and Expense

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

H. Compensated Absences

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At December 31, 2013, the carrying amount of the District's deposits was \$170,050 and the bank balance was \$170,508. The entire bank balance was covered by federal depository insurance.

NOTE 3 - RESTRICTED CASH AND EQUIVALENTS

The District has an escrow account and a certificate of deposit established for customer deposits. The District requires a refundable deposit at the time a new customer is connected to the water system. These receipts are deposited into the escrow account until such time as the customer is disconnected from the system. If the customer is current with all water bills, the deposit is returned to the customer from the escrow account. If the customer is past due on any water bill, the deposit is first applied to the bill, with any remainder being refunded to the customer from the escrow account. The amount in the escrow account and certificate of deposit is \$17,280 over the amount in the liability account on the ledger.

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	Balance 12/31/12	Additions	Dispositions	Balance 12/31/13
Historical Cost				
Organization	\$ 5,702	\$ 0	\$ 0	\$ 5,702
Land and land rights	16,225	0	0	16,225
Structures & improvements	40,986	2,500	0	43,486
Wells & springs	91,457	0	0	91,457
Pumping equipment	194,643	0	0	194,643
Water treatment equipment	371,160	4,396	0	375,556
Distribution reservoirs & standpipes	693,735	0	0	693,735
Transmission & distribution mains	4,561,689	13,170	0	4,574,859
Services	59,777	14,905	0	74,682
Meters & meter installations	494,708	26,247	0	520,955
Hydrants	78,441	3,100	0	81,541
Office furniture and equipment	16,822	2,993	0	19,815
Transportation equipment	41,737	0	0	41,737
Tools, shop & garage equipment	8,291	4,853	0	13,144
Power operated equipment	59,379	42,850	0	102,229
Communication equipment	1,958	0	0	1,958
Miscellaneous equipment	165,533	0	0	165,533
Total	<u>\$ 6,902,243</u>	<u>\$ 115,014</u>	<u>\$ 0</u>	<u>\$ 7,017,257</u>

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013

NOTE 4 - CAPITAL ASSETS (Continued)

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

	Balance 12/31/12	Additions	Dispositions	Balance 12/31/13
Accumulated depreciation:				
Organization	\$ 5,702	\$ 0	\$ 0	\$ 5,702
Land & land rights	5,185	124	0	5,309
Structures & improvements	6,474	1,296	0	7,770
Wells & springs	41,254	1,829	0	43,083
Pumping equipment	145,137	7,783	0	152,920
Water treatment equipment	306,872	7,802	0	314,674
Distribution reservoirs & standpipes	571,815	9,827	0	581,642
Transmission & distribution mains	1,649,288	89,753	0	1,739,041
Services	46,580	1,345	0	47,925
Meters & meter installations	304,767	34,500	0	339,267
Hydrants	58,723	3,536	0	62,259
Office furniture and equipment	15,396	431	0	15,827
Transportation equipment	24,232	3,890	0	28,122
Tools, shop & garage equipment	4,164	1,214	0	5,378
Power operated equipment	41,448	3,245	0	44,693
Communication equipment	1,958	0	0	1,958
Miscellaneous equipment	153,988	2,792	0	156,780
Total	\$ 3,382,983	\$ 169,367	\$ 0	\$ 3,552,350

NOTE 5 - LONG-TERM LIABILITIES

At year end, the District's long-term liabilities consisted of loans from the Kentucky Infrastructure Authority (KIA) and CFSB. The CFSB loan was obtained in order to pay off loans held by Berkadia. The loan is payable semi-annually and carries an interest rate of 4%. Payments are \$37,483 each February and August with a final maturity date of February 6, 2018. The KIA loan is payable monthly at varying amounts and at interest rates varying from 3.16% to 5.29%. The final maturity date is February 1, 2015.

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013

NOTE 5 - LONG-TERM LIABILITIES (Continued)

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

	Balance 12/31/12	Additions	Retirements	Balance 12/31/13	Due Within One Year
Berkadia loans	\$ 333,029	\$ 0	\$ 333,029	\$ 0	\$ 0
CFSB loan	0	336,222	30,721	305,501	63,205
KIA loan	423,641	0	190,505	233,136	199,508
Total	<u>\$ 756,670</u>	<u>\$ 336,222</u>	<u>\$ 554,255</u>	<u>\$ 538,637</u>	<u>\$ 262,713</u>

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

Year Ended December 31	Interest	Service Fee	Principal	Total
2014	\$ 23,683	\$ 395	\$ 262,713	\$ 286,791
2015	10,517	34	99,423	109,974
2016	6,493	0	68,474	74,967
2017	3,671	0	71,295	74,966
2018	751	0	36,732	37,483
	<u>\$ 45,115</u>	<u>\$ 429</u>	<u>\$ 538,637</u>	<u>\$ 584,181</u>

NOTE 6 - RETIREMENT PLAN

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

Plan members are required to contribute 5% of creditable compensation and the District is required to contribute at an actuarially determined rate, which was 19.55% until July, 2013, at which time the rate was increased to 18.89%.

The contribution requirements of plan members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to the CERS for the years ended December 31, 2013, 2012, and 2011 were \$40,700, \$42,434, and \$37,474 respectively, equal to the required contributions for each year.

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2013

NOTE 7 - ESTIMATES

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

NOTE 8 - RISK MANAGEMENT

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

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

NOTE 9 - SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated other events and transactions for potential recognition or disclosure through March 27, 2014, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

JONATHAN CREEK WATER DISTRICT
SUPPLEMENTARY INFORMATION - OPERATING REVENUES
For the Year Ended December 31, 2013

Charges for services:	
Sales to residential customers	\$ 600,421
Sales to commercial customers	187,573
Service charges, reconnect fees & miscellaneous	<u>22,133</u>
Net charges for services	810,127
Penalties and late charges	<u>13,105</u>
Total Operating Revenues	<u><u>\$ 823,232</u></u>

See independent auditor's report

JONATHAN CREEK WATER DISTRICT
SUPPLEMENTARY INFORMATION - OPERATING EXPENSES
For the Year Ended December 31, 2013

OPERATING EXPENSES:

Source of Supply and Pumping Expense:

Operations:

Materials & supplies	\$ 976
	976

Maintenance:

Material & supplies	2,552
	2,552

Water Treatment Expense:

Operations:

Salaries and wages	24,727
Employee pension & benefits	16,372
Purchased power	80,080
Chemicals	6,788
Materials and supplies	3,782
Contractual services	3,673
	135,422

Transmission and Distribution Expense:

Operations:

Salaries & wages	55,582
Employee pension & benefits	23,367
Materials & supplies	65,093
Transportation expense	27,027
	171,069

Maintenance:

Materials & supplies	4,942
Contractual services	41,225
	46,167

Customer Accounts Expense:

Salaries and wages	60,160
Employee pension & benefits	28,638
Bad debt expense, net of recoveries	2,828
	91,626

See independent auditor's report

JONATHAN CREEK WATER DISTRICT
SUPPLEMENTARY INFORMATION - OPERATING EXPENSES
For the Year Ended December 31, 2013

OPERATING EXPENSES:

Administration and General Expense:	
Salaries and wages - employees	26,144
Salaries and wages - commissioners	24,200
Employee pensions & benefits	14,431
Materials and supplies - office	19,465
Contractual services - accounting	3,276
Contractual services - other	6,416
Ky Rural Water Assoc. membership dues	1,071
Insurance expense-general liability	739
Insurance expense-worker's compensation	4,203
Insurance expense-other	20,303
Training	335
Advertising	218
Utility Regulatory Assessment	1,626
Payroll taxes	12,734
Loan service fees	3,087
Miscellaneous	914
	<u>139,162</u>
Depreciation Expense	<u>169,367</u>
Total Operating Expenses	\$ 756,341

See independent auditor's report

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

75 Vine Street
Benton, KY 42025

(270) 527-3628
(270) 527-2261 fax

<kimhamcpa@hotmail.com>

KIM HAM

CERTIFIED PUBLIC ACCOUNTANT

TAXES ♦ BOOKKEEPING ♦ AUDITING ♦ PAYROLL ♦ CONSULTING

MEMBER,
*American Institute
of CPA's*

♦
MEMBER,
*Kentucky Society
of CPA's*

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Jonathan Creek Water District, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Jonathan Creek Water District's basic financial statements and have issued my report thereon dated March 27, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Jonathan Creek Water District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Kim Glavin". The signature is written in a cursive, somewhat stylized font.

Benton, Kentucky
March 27, 2014