

**JONATHAN CREEK  
WATER DISTRICT  
AUDIT REPORT**

*December 31, 2014*

# AUDIT REPORT

*of the*

# JONATHAN CREEK WATER DISTRICT

*For the fiscal year ended*

**DECEMBER 31, 2014**

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**KIM HAM**

**CERTIFIED PUBLIC ACCOUNTANT**

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75 Vine Street  
Benton, KY 42025

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

<kimhamcpa@hotmail.com>

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# KIM HAM

CERTIFIED PUBLIC ACCOUNTANT

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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, 2014 and 2013, 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, 2014 and 2013, 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 30, 2015, 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 30, 2015

JONATHAN CREEK WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014

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, 2014. It is to be read in conjunction with the financial statements which begin on page 8.

**FINANCIAL HIGHLIGHTS**

JCWD's net position increased by \$174,513 as a result of this year's operations.

Operating revenues increased by \$33,895 (4.1%).

Operating expenses, excluding depreciation, decreased by \$72,750 (12.4%).

Net income before capital contributions increased by \$115,322 (194.8%).

**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, 2014

**FINANCIAL INFORMATION**

Condensed Statement of Net Position

	<u>CY 2014</u>	<u>CY2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	\$ 247,756	\$ 250,926	\$ (3,170)	(1.3)
Restricted Assets	30,724	29,156	1,568	5.4
Capital Assets	<u>3,395,357</u>	<u>3,464,907</u>	<u>(69,550)</u>	<u>(2.0)</u>
Total Assets	<u>\$ 3,673,837</u>	<u>\$ 3,744,989</u>	<u>\$ (71,152)</u>	<u>(1.9)</u>
Current Liabilities	\$ 229,518	\$ 357,922	\$ (128,404)	(35.9)
Long-term Liabilities	<u>178,912</u>	<u>275,924</u>	<u>(97,012)</u>	<u>(35.2)</u>
Total Liabilities	<u>\$ 408,430</u>	<u>\$ 633,846</u>	<u>\$ (225,416)</u>	<u>(35.6)</u>
Deferred Inflows of Resources	<u>\$ 0</u>	<u>\$ 20,249</u>	<u>\$ (20,249)</u>	<u>(100.0)</u>
Net Investment in Capital				
Assets	\$ 3,030,706	\$ 2,906,021	\$ 124,685	4.3
Restricted Assets, net	19,067	17,280	1,787	10.3
Unrestricted Assets	<u>215,634</u>	<u>167,593</u>	<u>48,041</u>	<u>28.7</u>
Net Position	<u>\$ 3,265,407</u>	<u>\$ 3,090,894</u>	<u>\$ 174,513</u>	<u>5.7</u>

A portion of the KIA loan was re-financed with a local bank. The remainder of the KIA loan was paid off during the year. 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, 2014

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>CY2014</u>	<u>CY2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenue	\$ 857,127	\$ 823,232	\$ 33,895	4.1
Non-operating Revenue	27,523	26,688	835	3.1
Capital grant proceeds	<u>0</u>	<u>37,280</u>	<u>(37,280)</u>	<u>(100.0)</u>
Total Revenue	<u>\$ 884,650</u>	<u>\$ 887,200</u>	<u>\$ (2,550)</u>	<u>(.3)</u>
Operating Expenses	\$ 691,238	\$ 756,341	\$ (65,103)	(8.6)
Non-operating Expenses	<u>18,899</u>	<u>34,388</u>	<u>(15,489)</u>	<u>(45.0)</u>
Total Expenses	<u>\$ 710,137</u>	<u>\$ 790,729</u>	<u>\$ (80,592)</u>	<u>(10.2)</u>
Change in Net Position	\$ 174,513	\$ 96,471	\$ 78,042	80.9
Beginning Net Position	<u>3,090,894</u>	<u>2,994,423</u>	<u>96,471</u>	<u>3.2</u>
Ending Net Position	<u>\$ 3,265,407</u>	<u>\$ 3,090,894</u>	<u>\$ 174,513</u>	<u>5.6</u>

Operating revenues increased over the previous year due to an increase in gallons sold to customers by 13%. Operating expenses decreased from the prior year primarily due to more repairs than normal in the prior year.

**CAPITAL ASSETS AND LONG-TERM DEBT**

JCWD's expenditures for plant, lines and other facilities were \$107,464 in CY 2014, compared to \$115,014 in CY 2013.

The District obtained a loan with CFSB at 3.125% in order to pay off a loan with KIA at 5.24%. The new loan matures on January 31, 2015; however the bank has extended the loan. The loan was extended due to not making all of the first payment in July due to some unforeseen expenses.



JONATHAN CREEK WATER DISTRICT  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2014

**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, 2014

	Actual	Budget	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Charges for services	\$ 829,512	\$ 838,000	\$ (8,488)	(1.0)
Penalties, late charges, and other	27,615	33,560	(5,945)	(17.7)
Total Operating Revenues	<u>857,127</u>	<u>871,560</u>	<u>(14,433)</u>	<u>(1.7)</u>
Operating Expenses:				
Salaries	189,405	182,460	6,945	3.8
Employee pension and benefits	67,376	66,240	1,136	1.7
Fuel and power for pumping	88,085	69,560	18,525	26.6
Materials and supplies	39,930	75,370	(35,440)	(47.0)
Chemicals	7,918	8,780	(862)	(9.8)
Transportation & training	32,016	22,000	10,016	45.5
Depreciation	177,014	159,100	17,914	11.3
Insurance	24,880	23,340	1,540	6.6
Professional fees & outside services	39,735	52,610	(12,875)	(24.5)
Dues	1,216	0	1,216	N/A
Utility Regulatory Expense	1,607	1,400	207	14.8
Payroll taxes	13,555	12,480	1,075	8.6
Equipment rent	787	0	787	N/A
Advertising	746	1,500	(754)	(50.3)
Loan service expense	1,511	1,530	(19)	(1.2)
Bad debt expense	1,947	4,220	(2,273)	(53.9)
Miscellaneous	3,510	3,080	430	14.0
Total operating expenses	<u>691,238</u>	<u>683,670</u>	<u>7,568</u>	<u>1.1</u>
Income from operations	<u>165,889</u>	<u>187,890</u>	<u>(22,001)</u>	<u>(11.7)</u>
Non-operating revenues (expenses):				
Interest income	358	1,700	(1,342)	(78.9)
Proceeds from sale of surplus	6,916	0	6,916	N/A
Interest expense	(18,899)	(61,510)	42,611	69.3
Amortization of debt discount and expense	20,249	17,350	2,899	16.7
Total non-operating revenues (expenses)	<u>8,624</u>	<u>(42,460)</u>	<u>51,084</u>	<u>120.3</u>
Change in net position	174,513	145,430	29,083	20.0
Net position January 1, 2014	<u>3,090,894</u>	<u>3,090,894</u>	<u>0</u>	<u>0.0</u>
Net position December 31, 2014	<u>\$ 3,265,407</u>	<u>\$ 3,236,324</u>	<u>\$ 29,083</u>	<u>0.9</u>

JONATHAN CREEK WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014

**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 or David Lovett, Superintendent at 270-354-8474.

**JONATHAN CREEK WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
December 31, 2014 and 2013

<b>ASSETS:</b>	<u>2014</u>	<u>2013</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 122,602	\$ 140,894
Customer accounts receivable, less allowance for doubtful accounts of \$6,961	74,936	60,242
Materials & supplies inventory	36,470	37,195
Prepaid expenses	13,748	12,595
<b>Total Current Assets</b>	<u>247,756</u>	<u>250,926</u>
<b>Restricted Assets:</b>		
Cash and cash equivalents	30,724	29,156
<b>Total Restricted Assets</b>	<u>30,724</u>	<u>29,156</u>
<b>Noncurrent Assets:</b>		
Capital assets	7,091,455	7,017,257
Less: Accumulated depreciation	(3,696,098)	(3,552,350)
<b>Total Noncurrent Assets</b>	<u>3,395,357</u>	<u>3,464,907</u>
<b>Total Assets</b>	<u><u>\$ 3,673,837</u></u>	<u><u>\$ 3,744,989</u></u>
<b>LIABILITIES:</b>		
<b>Current Liabilities (payable from current assets):</b>		
Accounts payable	\$ 12,520	\$ 65,148
Accrued interest payable	5,551	6,289
Accrued liabilities	14,138	11,982
Current portion of long-term debt	185,739	262,713
<b>Total Current Liabilities (payable from current assets)</b>	<u>217,948</u>	<u>346,132</u>
<b>Current Liabilities (payable from restricted assets):</b>		
Customer deposits	11,570	11,790
<b>Total Current Liabilities (payable from restricted assets)</b>	<u>11,570</u>	<u>11,790</u>
<b>Noncurrent Liabilities:</b>		
Note payable, less current maturities	178,912	275,924
<b>Total Noncurrent Liabilities</b>	<u>178,912</u>	<u>275,924</u>
<b>Total Liabilities</b>	<u><u>\$ 408,430</u></u>	<u><u>\$ 633,846</u></u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Gain on refinancing	\$ 0	\$ 20,249
<b>Total Deferred Inflows of Resources</b>	<u>\$ 0</u>	<u>\$ 20,249</u>
<b>NET POSITION:</b>		
Net investment in capital assets	\$ 3,030,706	\$ 2,906,021
Restricted for:		
Customer deposits	19,067	17,280
Unrestricted		
Unreserved	215,634	167,593
<b>Total Net Position</b>	<u><u>\$ 3,265,407</u></u>	<u><u>\$ 3,090,894</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, 2014 and 2013

	2014	2013
<b>OPERATING REVENUES:</b>		
Water Sales, net	\$ 837,017	\$ 801,099
Other service revenue	20,110	22,133
<b>Total Operating Revenues</b>	857,127	823,232
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	246,336	262,155
Utilities	88,085	80,080
Maintenance and supplies	39,930	96,810
Equipment rent	787	0
Chemicals	7,918	6,788
Transportation and training	32,016	27,362
Depreciation expense	177,014	169,367
Insurance expense	24,880	25,245
Professional fees & outside services	39,735	53,100
Utility regulatory assessment	1,607	1,626
Dues	1,216	1,071
Commissioners' fees	24,000	24,200
Advertising	746	218
Loan service fees	1,511	3,087
License and permits	1,490	1,490
Miscellaneous	2,020	914
Bad debt expense	1,947	2,828
<b>Total Operating Expenses</b>	691,238	756,341
Operating Income (Loss)	165,889	66,891
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest and dividend income	358	672
Amortization of debt discount and expense	20,249	17,356
Proceeds from sale of surplus	6,916	8,660
Interest expense	(18,899)	(34,388)
<b>Total Non-operating Revenues (Expenses)</b>	8,624	(7,700)
Net income (loss) before contributions	174,513	59,191
<b>CONTRIBUTED CAPITAL:</b>		
Capital grant proceeds	0	37,280
Change in net position	174,513	96,471
<b>Net Position, beginning of year</b>	3,090,894	2,994,423
<b>Net Position, end of year</b>	\$ 3,265,407	\$ 3,090,894

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
For the Years Ended December 31, 2014 and 2013

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	2014	2013
Cash received from:		
Customers	\$ 819,868	\$ 804,298
Other service revenue	20,110	22,133
Cash paid for:		
Salaries and benefits	(243,892)	(261,963)
Utilities	(94,751)	(74,530)
Maintenance and supplies	(57,834)	(79,566)
Equipment rent	(768)	0
Chemicals	(8,947)	(5,759)
Transportation expenses	(36,712)	(24,373)
Insurance	(26,033)	(35,426)
Professional Fees & outside services	(57,610)	(27,968)
Dues, Taxes and licenses	(5,384)	(3,116)
Commissioners' fees	(24,000)	(24,200)
Advertising	(964)	0
Loan service fees	(1,511)	(3,087)
Miscellaneous	(2,020)	(914)
<b>Net cash provided by (used in) operating activities</b>	<b>279,552</b>	<b>285,529</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(109,927)	(109,282)
Capital grant proceeds	0	37,280
Proceeds from sale of surplus	6,916	8,660
Proceeds of long-term debt	336,222	336,222
Principal paid on bonds and other long-term debt	(510,208)	(554,255)
Interest paid on bonds and other long-term debt	(19,637)	(31,170)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(296,634)</b>	<b>(312,545)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest earnings	358	672
<b>Net cash provided by (used in) investing activities</b>	<b>358</b>	<b>672</b>
Net Increase (Decrease) in Cash and Cash Equivalents	(16,724)	(26,344)
Cash & Cash Equivalents - January 1, 2014	170,050	196,394
Cash & Cash Equivalents - December 31, 2014	<b>\$ 153,326</b>	<b>\$ 170,050</b>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 165,889	\$ 66,891
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	177,014	169,367
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(14,694)	3,635
Decrease (increase) in other receivables	0	6,176
Decrease (increase) in materials & supplies inventory	725	(700)
Decrease (increase) in prepaid expenses	(1,153)	(10,181)
Increase (decrease) in accounts payable	(50,165)	47,757
Increase (decrease) in accrued liabilities	2,156	2,244
Increase (decrease) in customer deposits	(220)	340
<b>Net cash provided by operating activities</b>	<b>\$ 279,552</b>	<b>\$ 285,529</b>

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

**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, 2014

**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, 2014

**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, 2014, the carrying amount of the District's deposits was \$153,326 and the bank balance was \$167,213. 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 \$19,067 over the amount in the liability account on the ledger.



JONATHAN CREEK WATER DISTRICT  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 DECEMBER 31, 2014

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance 12/31/13	Additions	Dispositions	Balance 12/31/14
Historical Cost				
Organization	\$ 5,702	\$ 0	\$ 0	\$ 5,702
Land and land rights	16,225	0	0	16,225
Structures & improvements	43,486	0	0	43,486
Wells & springs	91,457	0	0	91,457
Pumping equipment	194,643	22,019	0	216,662
Water treatment equipment	375,556	2,858	0	378,414
Distribution reservoirs & standpipes	693,735	1,454	0	695,189
Transmission & distribution mains	4,574,859	11,979	0	4,586,838
Services	74,682	1,069	0	75,751
Meters & meter installations	520,955	26,096	27,017	520,034
Hydrants	81,541	0	0	81,541
Office furniture and equipment	19,815	6,934	0	26,749
Transportation equipment	41,737	25,300	5,000	62,037
Tools, shop & garage equipment	13,144	9,755	0	22,899
Power operated equipment	102,229	0	0	102,229
Communication equipment	1,958	0	0	1,958
Miscellaneous equipment	165,533	0	1,249	164,284
Total	<u>\$ 7,017,257</u>	<u>\$ 107,464</u>	<u>\$ 33,266</u>	<u>\$ 7,091,455</u>

JONATHAN CREEK WATER DISTRICT  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 DECEMBER 31, 2014

**NOTE 4 - CAPITAL ASSETS (Continued)**

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

	Balance 12/31/13	Additions	Dispositions	Balance 12/31/14
Accumulated depreciation:				
Organization	\$ 5,702	\$ 0	\$ 0	\$ 5,702
Land & land rights	5,309	-	0	5,309
Structures & improvements	7,770	1,504	0	9,274
Wells & springs	43,083	1,829	0	44,912
Pumping equipment	152,920	8,590	0	161,510
Water treatment equipment	314,674	8,164	0	322,838
Distribution reservoirs & standpipes	581,642	9,899	0	591,541
Transmission & distribution mains	1,739,041	90,005	0	1,829,046
Services	47,925	1,504	0	49,429
Meters & meter installations	339,267	35,720	27,017	347,970
Hydrants	62,259	3,284	0	65,543
Office furniture and equipment	15,827	1,666	0	17,493
Transportation equipment	28,122	6,420	5,000	29,542
Tools, shop & garage equipment	5,378	2,232	0	7,610
Power operated equipment	44,693	4,102	0	48,795
Communication equipment	1,958	0	0	1,958
Miscellaneous equipment	156,780	2,095	1,249	157,626
<b>Total</b>	<b>\$ 3,552,350</b>	<b>\$ 177,014</b>	<b>\$ 33,266</b>	<b>\$ 3,696,098</b>

**NOTE 5 - LONG-TERM LIABILITIES**

At year end, the District's long-term liabilities consisted of two loans from CFSB and a capital lease payable to Advance Acceptance. The CFSB loans were obtained in order to pay off loans held by Berkadia and KIA. The first 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 second loan is payable on January 31, 2015. The capital lease is payable monthly and carries an interest rate of 8.5%. Payments are \$160 per month with a final maturity date of May 12, 2017.

JONATHAN CREEK WATER DISTRICT  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 DECEMBER 31, 2014

**NOTE 5 - LONG-TERM LIABILITIES (Continued)**

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

	Balance 12/31/13	Additions	Retirements	Balance 12/31/14	Due Within One Year
CFSB loan #1	\$ 305,501	\$ 0	\$ 63,213	\$ 242,288	\$ 65,928
CFSB loan #2	0	142,428	24,243	118,185	118,185
Capital lease	0	5,100	922	4,178	1,626
KIA loan	233,136	0	233,136	0	0
Total	<u>\$ 538,637</u>	<u>\$ 147,528</u>	<u>\$ 321,514</u>	<u>\$ 364,651</u>	<u>\$ 185,739</u>

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

Year Ended December 31	Interest	Principal	Total
2015	\$ 11,200	\$ 185,739	\$ 196,939
2016	6,525	70,360	76,885
2017	3,621	72,145	75,766
2018	728	36,407	37,135
	<u>\$ 22,074</u>	<u>\$ 364,651</u>	<u>\$ 386,725</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 18.89% until July, 2014, at which time the rate was increased to 17.67%.

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, 2014, 2013, and 2012 were \$35,642, \$40,700, and \$42,434 respectively, while the required contributions were \$37,695, \$40,700, and \$42,434 respectively.

JONATHAN CREEK WATER DISTRICT  
**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)**  
DECEMBER 31, 2014

**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 30, 2015, 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, 2014

<b>Charges for services:</b>	
Sales to residential customers	\$ 616,869
Sales to commercial customers	212,643
Service charges, reconnect fees & miscellaneous	<u>20,110</u>
<b>Net charges for services</b>	849,622
Penalties and late charges	<u>7,505</u>
<b>Total Operating Revenues</b>	<u><u>\$ 857,127</u></u>

See independent auditor's report

JONATHAN CREEK WATER DISTRICT  
**SUPPLEMENTARY INFORMATION - OPERATING EXPENSES**  
For the Year Ended December 31, 2014

**OPERATING EXPENSES:**

Source of Supply and Pumping Expense:

Operations:

Materials & supplies	\$ 1,010
	1,010

Maintenance:

Material & supplies	327
	327

Water Treatment Expense:

Operations:

Salaries and wages	23,831
Employee pension & benefits	9,790
Purchased power	88,085
Chemicals	7,918
Materials and supplies	1,322
Contractual services-engineering	6,854
Contractual services	12,395
	150,195

Transmission and Distribution Expense:

Operations:

Salaries & wages	53,870
Employee pension & benefits	17,470
Materials & supplies	8,716
Contractual services	338
Transportation expense	30,381
	110,775

Maintenance:

Equipment rental	787
Materials & supplies	7,822
Contractual services	10,732
	19,341

Customer Accounts Expense:

Salaries and wages	62,346
Employee pension & benefits	24,969
Contractual services	886
Bad debt expense, net of recoveries	1,947
	90,148

See independent auditor's report

JONATHAN CREEK WATER DISTRICT  
**SUPPLEMENTARY INFORMATION - OPERATING EXPENSES**  
For the Year Ended December 31, 2014

**OPERATING EXPENSES:**

Administration and General Expense:	
Salaries and wages - employees	25,358
Salaries and wages - commissioners	24,000
Employee pensions & benefits	15,147
Materials and supplies - office	20,733
Contractual services - accounting	3,523
Contractual services - other	6,497
Ky Rural Water Assoc. membership dues	1,216
Insurance expense-general liability	728
Insurance expense-worker's compensation	3,899
Insurance expense-other	20,253
Training	1,635
Advertising	746
Utility Regulatory Assessment	1,607
Payroll taxes	13,555
Loan service fees	1,511
Bank service charges	941
Penalties	1,000
Miscellaneous	79
	142,428
Depreciation Expense	177,014
<b>Total Operating Expenses</b>	<b>\$ 691,238</b>

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>

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**KIM HAM**  
**CERTIFIED PUBLIC ACCOUNTANT**

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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, 2014 and 2013, 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 30, 2015.

**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.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be a material weakness.

*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. I consider the deficiency described in the accompanying schedule of findings and responses as item 2014-01 to be a material weakness..

## **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*.

## **District's Response to Findings**

Jonathan Creek Water District's response to the finding identified in my audit is described in the accompanying schedule of findings and responses. Jonathan Creek Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

## **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 style and is positioned above the typed name and date.

Benton, Kentucky  
March 30, 2015

JONATHAN CREEK WATER DISTRICT  
**SCHEDULE OF FINDINGS AND RESPONSES**  
FOR THE YEAR ENDED DECEMBER 31, 2014

**I. Internal Control Finding (Material Weakness)**

2014-1. General Ledger Adjustments

Condition: The amount and number of adjustments that were required during the audit were material.

Criteria: Although auditors are allowed to adjust cash basis records to the accrual basis, other entries should not be material.

Cause and Effect: There was turnover in office personnel and sales entries for the last six months of the year were not made. Although the amounts received were deposited and credited to accounts receivable, because the sales entries were not made, accounts receivable ended up the year with a material credit balance.

Recommendation: If the current accounting software continues to be used, the sales entries should be made on a monthly basis. If a different software is used, training in the proper entries should be obtained so that management may obtain useful and accurate information.

Management's Response: Upon receiving corrected opening balances for the year, we intend to make use of a general ledger system that will be integrated with the billing system in order to make these types of entries each month.