

JONATHAN CREEK WATER DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2015

**JONATHAN CREEK WATER DISTRICT
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INTRODUCTORY SECTION

**JONATHAN CREEK WATER DISTRICT
DIRECTORY**

December 31, 2015

BOARD MEMBERS

Larry Conner, Chairman
Leon Lovett
Jimmie Tubbs
Barry Hill
Mark Holt

MANAGEMENT TEAM

David Lovett, Superintendent
Christina Mathis, Bookkeeper

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants

Offices in Tennessee & Kentucky

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Independent Auditor's Report

Board of Commissioners
Jonathan Creek Water District
Benton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Jonathan Creek Water District (the District), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's 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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the required schedules for pensions on pages 5 through 8 and 24 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and other information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2016 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Jackson, Tennessee
April 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Jonathan Creek Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2015. All amounts, unless otherwise indicated, are expressed in actual dollars. The implementation of Governmental Accounting Standards Board (GASB) Statements No. 68 and 71, *Accounting and Financial Reporting for Pensions – amendment of GASB Statement No. 27 and Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during 2015 causes some financial information reported in the management's discussion and analysis for 2015 and 2014 not to be comparable

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is strong. The District is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets and deferred outflows at year-end were \$3.86 million and exceeded liabilities in the amount of \$3.16 million (i.e. net position).
- Total assets increased by \$127 thousand, mainly due to a significant amount of capital asset additions.
- Operating revenues were \$916 thousand, an increase from year 2014 in the amount of \$59 thousand or 6.90%.
- Operating expenses were \$822 thousand, an increase from year 2014 in the amount of \$131 thousand or 18.89%.
- The operating income for the year was \$94 thousand as compared to \$166 thousand in 2014.
- Ratio of operating income (loss) to total operating revenue was 10.31% for 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the supplementary and other information section, 4) and the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The supplementary and other information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities

The *Statement of Net Position* includes all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, 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 flows. This statement measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, 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 ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates. The District's total net position decreased by \$109 thousand for the fiscal year ended December 31, 2015. The analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1
CONDENSED STATEMENTS OF NET POSITION

	December 31, 2015	December 31, 2014	Increase (Decrease)	
			\$	%
Current and other assets	\$ 280,596	\$ 247,756	\$ 32,840	13.25%
Restricted noncurrent assets	13,505	30,724	(17,219)	-56.04%
Capital assets	3,507,128	3,395,357	111,771	3.29%
Total assets	<u>3,801,229</u>	<u>3,673,837</u>	<u>127,392</u>	<u>3.47%</u>
Deferred outflows of resources	<u>53,830</u>	<u>-</u>	<u>53,830</u>	<u>100.00%</u>
Long-term liabilities	288,390	178,912	109,478	61.19%
Other liabilities	410,752	229,518	181,234	78.96%
Total liabilities	<u>699,142</u>	<u>408,430</u>	<u>290,712</u>	<u>71.18%</u>
Invested in capital assets	3,160,146	3,030,706	129,440	4.27%
Restricted for customer deposits	-	19,067	(19,067)	-100.00%
Unrestricted	(4,229)	215,634	(219,863)	-101.96%
Total net position	<u>\$ 3,155,917</u>	<u>\$ 3,265,407</u>	<u>\$ (109,490)</u>	<u>-3.35%</u>

The increase in capital assets in 2015 was due to the purchase of new capital equipment. Total liabilities increased during the current year due a new CFSB line of credit and net pension liability.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expense, and Changes in Net Position for the year.

Table 2
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	December 31, 2015	December 31, 2014	Increase (Decrease)	
			\$	%
Operating revenues	\$ 916,265	\$ 857,127	\$ 59,138	6.90%
Non-operating revenues	15,782	27,523	(11,741)	-42.66%
Total revenues	<u>932,047</u>	<u>884,650</u>	<u>47,397</u>	<u>5.36%</u>
Costs of sales and services	424,616	262,307	162,309	61.88%
Customer accounts expense	42,303	90,148	(47,845)	-53.07%
Administrative and general expenses	112,832	142,428	(29,596)	-20.78%
Maintenance expense	20,871	19,341	1,530	7.91%
Provision for depreciation	221,182	177,014	44,168	24.95%
Non-operating expenses	5,280	18,899	(13,619)	-72.06%
Total expenses	<u>827,084</u>	<u>710,137</u>	<u>116,947</u>	<u>16.47%</u>
Change in net position	104,963	174,513	(69,550)	-39.85%
Beginning net position	3,265,407	3,090,894	174,513	5.65%
Restatement - GASB Statement No. 68 implementation	(214,453)	-	(214,453)	-100.00%
Net position - beginning - restated	3,050,954	3,090,894	(39,940)	-1.29%
Ending net position	<u>\$ 3,155,917</u>	<u>\$ 3,265,407</u>	<u>\$ (109,490)</u>	<u>-3.35%</u>

Operating revenues showed 6.90% increase in 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2015 the system had \$3.51 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, distribution systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, utility plant in service, and construction in progress.

The following tables summarizes the District's capital assets, net of accumulated depreciation, and changes therein, for the years ended December 31, 2015 and 2014. These changes are presented in detail in Note 3E to the financial statements.

Table 3
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	December 31, 2015	December 31, 2014	Increase (Decrease)	
			\$	%
Land	\$ 16,225	\$ 16,225	\$ -	0.00%
Utility plant in service	7,394,568	7,075,230	319,338	4.51%
Accumulated depreciation	(3,903,665)	(3,696,098)	(207,567)	5.62%
Total capital assets	<u>\$ 3,507,128</u>	<u>\$ 3,395,357</u>	<u>\$ 111,771</u>	3.29%

Debt Administration

The District has a line of credit with a balance of \$347 thousand as of December 31, 2015. The balance will be converted to a note in May of 2016.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District will continue to function under the current operations. Management will do everything possible to keep the customer costs as low as possible and continue to maintain the District's financial position. The District has no current plans to expand or increase costs to its customers.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the commissioners at the office located at 7564 US-68, Benton, Kentucky 42025, or by telephone at (270) 354-8474.

**JONATHAN CREEK WATER DISTRICT
STATEMENT OF NET POSITION**

December 31, 2015

	2015
ASSETS	
Current assets:	
Cash on hand	\$ 500
Cash in bank - unrestricted	140,924
Accounts receivable - customer (less allowance of \$6,961)	59,931
Inventory	67,737
Prepaid expenses	11,504
Total current assets	280,596
Noncurrent assets:	
Cash in bank - restricted	13,505
Total restricted cash accounts	13,505
Capital assets:	
Land	16,225
Utility plant in service	7,394,568
Less: Provision for depreciation	(3,903,665)
Total capital assets	3,507,128
Total noncurrent assets	3,520,633
Total assets	3,801,229
Deferred outflows of resources:	
Pension contributions subsequent to the measurement date	19,954
Pension - difference between investments	2,793
Change of assumptions	28,716
Pension - difference between expected and actual experience	2,367
Total deferred outflows of resources	53,830

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

JONATHAN CREEK WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2015

	2015
LIABILITIES	
Current liabilities (payable from current assets):	
Accounts payable	30,006
Other accrued liabilities	10,834
CERS Retirement liability	4,673
Line of credit	346,982
Total current liabilities (payable from current assets)	392,495
 Current liabilities (payable from restricted assets):	
Customer deposits	18,257
Total current liabilities	410,752
 Noncurrent liabilities:	
Accrued vacation	3,618
Net pension liability	284,772
Total noncurrent liabilities	288,390
Total liabilities	699,142
 NET POSITION	
Net investment in capital assets	3,160,146
Unrestricted	(4,229)
Total net position	\$ 3,155,917

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

JONATHAN CREEK WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31, 2015

	2015
Operating revenues:	
Charges for sales and services	\$ 831,734
Other operating revenue	84,531
Total operating revenues	916,265
Operating expenses:	
Costs of sales and service	424,616
Maintenance	20,871
Customer accounts	42,303
Administrative and general expenses	112,832
Provision for depreciation	221,182
Total operating expenses	821,804
Operating income (loss)	94,461
Nonoperating revenues (expenses):	
Interest income	317
Interest expense	(5,280)
Proceeds from sale of surplus	15,465
Total nonoperating revenues (expenses)	10,502
Change in net position	104,963
Net position - beginning	3,265,407
Restatement - GASB Statement No. 68 implementation	(214,453)
Net position - beginning - restated	3,050,954
Net position - ending	\$ 3,155,917

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

JONATHAN CREEK WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2015

	2015
Cash flows from operating activities:	
Cash received from consumers	\$ 931,270
Cash paid to suppliers of goods and services	(552,946)
Cash paid to employees for services	(43,288)
Change in customer deposits	6,687
Net cash provided by (used in) operating activities	341,723
 Cash flows from investing activities:	
Interest received from investments	317
Net cash provided by (used in) investing activities	317
 Cash flows from capital and related financing activities:	
Payment on long-term debt	(454,320)
Proceeds from sale of assets	21,300
Construction and acquisition of plant	(338,788)
Proceeds from line of credit	436,651
Interest and other non-operating expenses	(5,280)
Net cash provided by (used in) financing activities:	(340,437)
 Increase (decrease) in cash and cash equivalents	1,603
Cash and cash equivalents - beginning	153,326
Cash and cash equivalents - ending	\$ 154,929
 Cash and cash equivalents:	
Restricted cash in bank	\$ 13,505
Unrestricted cash on hand	500
Unrestricted cash in bank	140,924
Net cash and cash equivalents	\$ 154,929

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

JONATHAN CREEK WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2015

	2015
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Net operating income (loss)	\$ 94,461
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for depreciation	221,182
Pension expense	36,443
Pension contributions subsequent to measurement date	(19,954)
(Increase) decrease in current assets:	
Accounts receivable	15,005
Inventory	(31,267)
Prepaid expenses	2,244
Increase (decrease) in current liabilities:	
Accounts payable	17,486
Other current liabilities	(4,182)
Accrued vacation	3,618
Customer deposits	6,687
Net cash provided by (used in) operating activities	\$ 341,723

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

**JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

December 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The Jonathan Creek Water District's general purpose financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name),
- The District holds the corporate powers of the organization,
- The District appoints a voting majority of the organization's board,
- The District is able to impose its will on the organization,
- The organization has the potential to impose a financial benefit/burden on the District, and
- There is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the Jonathan Creek Water District has no component units.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses

**JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

December 31, 2015

C. Assets, Liabilities, and Net Position

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Accounts Receivable

Trade receivables result from unpaid billings for water service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on past history of uncollectible accounts and management's analysis of current accounts.

Inventories and Prepaid Items

All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method at year end. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements as of year end.

Restricted Assets

Certain cash accounts and investments are classified as restricted assets on the statement of net position because they are related to customer deposits. The District elects to use restricted assets before unrestricted assets when the situation arises when either can be used.

Capital Assets

The property, plant, and equipment are stated at original cost including all direct cost of materials and labor during the construction period. All donated material is stated at the current fair market value.

The costs of replacements, normal maintenance, and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the District, with the exception of Land and Construction in Process, are depreciated, using the straight line method over the following useful lives:

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

Accrued Vacation

It is the District's policy to permit employees to accumulate earned but unused vacation. All vacation pay has been accrued and the current year's is reflected as a current liability and the prior year's is reflected as a noncurrent liability on the financial statements.

JONATHAN CREEK WATER DISTRICT NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Long-term Obligations

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District has several items that qualify for this form of reporting - deferred outflows caused by pension contributions as of December 31, 2015.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for this form of reporting - deferred inflows as of December 31, 2015.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Net Position

Equity is classified as net assets and displayed in the following two components:

- Net Investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Restricted – Consists of funds that are mandated for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Unrestricted - All other net positions that do not meet the description of the above categories.

Impact of Recently Issued Accounting Pronouncements

In March of 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment to GASB Statement No. 27* and in November 2013 issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Statement No. 68 improves accounting and financial reporting by state and local governments for pensions and is effective for fiscal years beginning after June 15, 2014. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

due. Statement No.68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligation. The District has implemented GASB Statement No. 68 and 71 for the year ended December 31, 2015. This implementation resulted in the reporting of deferred outflows related to pensions and net pension liability on the statement of net position and a restatement of beginning net position.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The fiscal year 2015 budget was approved unanimously at the October 2015 Board meeting. The budget is not legally adopted but only used as a management tool.

NOTE 3 – DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. For an investment, this is the risk that, in the event of a failure of the counterpart, the District will not be able to recover the value of its investments or the collateral securities that are in the possession of an outside party.

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute 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 its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky 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. As of December 31, 2015, all bank deposits were fully covered by federal depository insurance.

B. Receivables

Receivables as of the fiscal year ends were made up of the following:

<u>Receivables</u>	
	<u>2015</u>
Billed service for utility customers	\$ 66,892
Less: allowance for doubtful	(6,961)
Total	<u>\$ 59,931</u>

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

C. Restricted Assets

Restricted assets as of the fiscal year ends were made up of the following:

Restricted Assets	
	2015
Cash in bank - restricted	\$ 80,555

D. Net Position

Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The restricted net position amounts were as follows:

Net Position	
	2015
Net investment in capital assets	
Net property, plant and equipment	\$ 3,507,128
Less: Debt as disclosed in Note 3F	346,982
	3,160,146
Unrestricted	(4,229)
Total net position	\$ 3,155,917

E. Capital Assets

Capital asset activity during the year was as follows:

Description	Balance at December 31, 2014	Additions	Disposals	Balance at December 31, 2015
Capital assets, not being depreciated				
Land	\$ 16,225	\$ -	\$ -	\$ 16,225
Total capital assets not being depreciated	16,225	-	-	16,225
Capital assets, being depreciated				
Utility plant in service	7,075,230	338,788	19,450	7,394,568
Less accumulated depreciation for:				
Utility plant in service	3,696,098	221,182	13,615	3,903,665
Total capital assets, being depreciated, net	3,379,132	117,606	5,835	3,490,903
Total capital assets, net	\$ 3,395,357	\$ 117,606	\$ 5,835	\$ 3,507,128

Depreciation expense amounted to \$221,182 for the fiscal year ended December 31, 2015.

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Long-term Debt

At year end, the District's long-term liabilities consisted of the following loan:

- (1) CFSB loans, the balances of the loans were combined in the new CFSB line of credit as of December 31, 2015.
- (2) Capital lease, the balances of the lease was fully paid off as of December 31, 2015.
- (3) The District has a CFSB line of credit with a balance of \$347 thousand as of December 31, 2015, which will be converted into a note in May of 2016.

The following is a summary of long-term debt transactions for the year ended December 31, 2015.

	Balance 12/31/14	Issued	Retired	Balance 12/31/15	Due Within One Year
CFSB loan #1	242,288	-	242,288	-	-
CFSB loan #2	118,185	-	118,185	-	-
CFSB lince of credit	-	436,651	89,669	346,982	346,982
Capital lease	4,178	-	4,178	-	-
Total long-term debt	<u>364,651</u>	<u>436,651</u>	<u>454,320</u>	<u>346,982</u>	<u>346,982</u>
Accrued vacation	-	3,618	-	3,618	-
Total Long-Term Liabilities	<u>\$ 364,651</u>	<u>\$ 440,269</u>	<u>\$ 454,320</u>	<u>\$ 350,600</u>	<u>\$ 346,982</u>

NOTE 4 – OTHER INFORMATION

A. 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; and natural disasters. During the year ended December 31, 2015, the District purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

B. Retirement Plan

For the year ended December 31, 2015, the District's total covered payroll for all employees was \$201,612. Covered payroll refers to all compensation paid by the District to active employees covered by the Plan.

County Employees Retirement System Non-Hazardous (CERS)

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit plan. CERS is administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Employee membership data related to the Plan as of June 30, 2015 was as follows:

Active members	5
Inactive members	8
Total members	14

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years of service or 65 years old At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 – December 31, 2013 At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87 At least 10 years of service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for nonservice related disability benefits.

Contributions – Required contributions by the employee are based on the tier:

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommended rates. The District's contributions to CERS for the year ended December 31, 2015 were \$34,602.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2015, the District reported a liability \$284,772 for its proportionate share of the net pension liability. The net pension liability for the plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was 0.006620%.

For the year ended December 31, 2015, the District recognized pension expense of \$32,135. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,367	\$ -
Changes of assumptions	28,716	-
Net difference between projected and actual earnings on plan investments	2,553	-
Employer contributions subsequent to the measurement date	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	240	-
District contributions subsequent to the measurement date	19,954	-
Total	\$ 53,830	\$ -

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year 1	\$ 10,786
Year 2	10,786
Year 3	5,106
Year 4	4,807
Year 5	-
Thereafter	-

Actuarial assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Projected salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates for the period after service retirement are according to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females) for all healthy retired members and beneficiaries. The RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. These assumptions are used to measure the probabilities of each benefit payment being made after retirement. These assumptions contain margin form mortality improvement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash equivalent	<u>2%</u>	-0.25%
Total	100%	

Discount rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate – The following table presents the net pension liability of the District, calculated using the discount rate selected, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rates.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's net pension liability	340,310	284,772	203,419

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report.

C. Restatement of Beginning Net Position – GASB 68 and 71 Implementation

As of July 1, 2014 a restatement of beginning net position was made for net pension liability and the deferred outflows of resources related to pensions of the City implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The implementation of GASB Statement No.’s 68 and 71 resulted in the District restating net position by \$214,453 with a measurement date of June 30, 2014. The effect of this restatement of beginning net position resulted in an decrease in the July 1, 2014 net position.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

**JONATHAN CREEK WATER DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employee's Retirement System
Fiscal Years Ending December 31,**

	<u>2014</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.00661%	0.00662%
District's proportionate share of the net pension liability (asset)	<u>\$ 214,453</u>	<u>\$ 284,772</u>
District's covered-employee payroll	\$ 150,511	\$ 201,612
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	142.48%	141.25%
Plan fiduciary net position as a percentage of the total pension liability	64.33%	66.79%

The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented

See independent auditor's report.

**JONATHAN CREEK WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS
County Employee's Retirement System
Fiscal Years Ending June 30,**

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 28,663	\$ 34,602
Contributions in relation to the contractually required contribution	<u>28,663</u>	<u>34,602</u>
Contribution deficiency (excess)	<u>\$ 420</u>	<u>\$ -</u>
District's covered employee payroll	\$ 150,511	\$ 201,612
Contributions as a percentage of covered-employee payroll	19.04%	17.16%

This is a 10-year schedule. However, the information in this schedule is not required to be presented

See independent auditor's report.

JONATHAN CREEK WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2015

County Employees Retirement System

Changes of benefit terms - None.

Changes of assumptions - The following changes were adopted by the Board of Trustees and reflected in the

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to

For health retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table

Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

See independent auditor's report.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

JONATHAN CREEK WATER DISTRICT
SCHEDULE OF OPERATING INCOME AND EXPENSES
For the Years Ended December 31, 2015

	2015
Operating revenues:	
Gross water sales	\$ 831,734
Fees:	
Miscellaneous	69,551
Connect and reconnect fees	14,980
	84,531
Total operating revenues	\$ 916,265
Operating expenses:	
Cost of sales and services	
Supply and pumping expense	\$ 186,641
Employee pension and benefits	83,783
Water treatment expense	107,309
Transmission and distribution expense	46,883
	424,616
Maintenance:	
Equipment rental	5,560
Materials and supplies	15,311
	20,871
Customer accounts expense:	
Salaries and wages	29,192
Employee pension and benefits	13,104
Bad debt expense, net of recoveries	7
	42,303

See independent auditor's report.

JONATHAN CREEK WATER DISTRICT
SCHEDULE OF OPERATING INCOME AND EXPENSES
For the Years Ended December 31, 2015

	2015
Administrative and general expenses	
Salaries and wages	33,526
Employee benefits	4,186
Office materials and supplies	9,194
Contractual services	3,469
Dues and subscriptions	1,904
Insurance	20,848
Advertising	1,512
Professional fees	6,004
Educational and training	3,994
Transportation	425
Alarm system	3,800
Bank service charges	1,009
Loan services fees	1,600
Telephone	11,393
Miscellaneous	9,968
	112,832
 Provision for depreciation	 221,182
 Total operating expense	 \$ 821,804

See independent auditor's report

JONATHAN CREEK WATER DISTRICT
WATER RATES IN FORCE
 December 31, 2015

Water

\$5.75 per every 1,000 gallons of water plus a base charge

Residential Rate Schedule	Base
Residential 5/8"	\$6.12
Residential 1"	\$11.83
Residential 1 1/2"	\$21.36
Residential 2"	\$32.78
Residential 3"	\$59.45
Residential 6"	\$192.77
Commercial Rate Schedule	
Commercial 5/8"	\$6.12
Commercial 1"	\$11.83
Commercial 1 1/2"	\$21.36
Commercial 2"	\$32.78
Commercial 3"	\$59.45
Commercial 6"	\$192.77

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



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Independent Auditor'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

Board of Commissioners
Jonathan Creek Water District
Benton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Jonathan Creek Water District (the District) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

Our 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 summary of findings and recommendations, we identified certain deficiencies in internal control that were considered to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the summary of findings and recommendations as 2015-001, 2015-002, 2015-003 and 2015-004 to be material weaknesses.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Alexander Thompson Arnold, PLLC". The signature is written in a cursive, flowing style.

Jackson, Tennessee
April 29, 2016

JONATHAN CREEK WATER DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
December 31, 2015

Financial Statement Findings:

2015-001 Failure to Reconcile Balance Sheet Accounts (Material Weakness)

Condition: While testing the accounts of the District, it was determined that accounts payable and inventory are not being reconciled.

Criteria: All statement of net position accounts of the District should be reconciled monthly.

Effect: When statement of net position accounts are not reconciled properly, the income statement as well as the balance sheet could be materially misstated. Further, when these accounts are not reconciled monthly, it exposes the District to misappropriation or theft occurring without District personnel detecting it.

Recommendation: We recommend that all statement of net position accounts of the district be reconciled on a monthly basis going forward.

Response: The accounting personnel will work to reconcile the accounts monthly.

2015-002 Material Journal Entries (Material Weakness)

Condition: Auditor had to propose a material journal entry to book all prior year statement of net position accounts and adjust reconciliations for the effects of beginning balances not being posted.

Criteria: Management was unable to properly reconcile statement of net position accounts due to not having beginning balances booked.

Effect: This exposes the District to a greater risk of fraud, loss and undetected error.

Recommendation: We recommend that balance sheet accounts be rolled forward each year in the District's accounting system.

Response: The District has a new software that will roll the balances forward each year.

2015-003 Failure to Follow Required Bid Procedures (Material Weakness)

Condition: During the audit it was noted that a certain qualifying purchase a bid was not obtained and brought before the Board in accordance with District policy.

Criteria: The District has a policy that requires that all purchases in excess of \$20,000 to have three bids and be brought before the Board.

Effect: The District could have situations where they do not obtain the best price because they do not properly bid the purchases out and accept the best bid.

JONATHAN CREEK WATER DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
December 31, 2015

Recommendation: We recommend that the Board should demand that all required bidding procedures are followed for all purchases over \$20,000 in order that the best price would be obtained and that adequate documentation be retained as evidence of correct bidding procedures.

Response: The District concurs with the finding and with the recommendation. All bidding procedures will now be performed under the direction of the District.

2015-004 Failure to Deposit Funds in a Timely Manner (Material Weakness)

Condition: During the audit it was noted that the client kept money set aside for daily cash overages and shortages. They used the funds to make the drawer even for the day.

Criteria: Management held out funds for the entire year which is against audit policy.

Effect: This exposes the District to a greater risk of fraud, loss and undetected error.

Recommendation: We recommend that all cash receipts be deposited timely. Any cash overages or shortages should be recorded daily and drawers should be balanced to the actual cash on hand.

Response: The District concurs and will start recording cash overages or shortages daily and balance drawers to actual cash on hand.

**JONATHAN CREEK WATER DISTRICT
SUMMARY OF PRIOR YEAR FINDINGS**
December 31, 2015

Financial Statement Findings:

Finding Number	Finding Title	Status
2014-001	Material Journal Entries	Repeated