

Jonathan Creek Water District

Financial Statements

December 31, 2016

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 6
Statement of Net Position	7 - 8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11 - 20
Required Supplementary Information	
Schedule of the Proportionate Share of the Net Pension Liability - CERS	21
Schedule of Contributions - CERS	22
Notes to the Schedule of Contributions – CERS	23
Supplementary Information	
Schedule of Operating Income and Expenses	24
Water Rates in Force	25
Schedule of Findings and Responses	26-28
Schedule of Prior Year Findings and Responses	29
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 <i>Government Auditing Standards</i>	30-31



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA

INDEPENDENT AUDITOR'S REPORT

Jonathan Creek Water District
Benton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Jonathan Creek Water District, as of and for the year ended December 31, 2016, 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

Our responsibility is to express opinions 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position Jonathan Creek Water District, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof 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 4-6 and the net pension liability and contribution information on pages 21-23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jonathan Creek Water District's basic financial statements. The accompanying supplemental information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplemental information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 accompanying supplemental 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*, we have also issued our report dated April 28, 2017, on our consideration of the Jonathan Creek Water 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 Jonathan Creek Water District's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

April 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Jonathan Creek Water District's financial performance provides an overview of the District's financial activities for the year ending December 31, 2016. This information presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Operating revenues for year ending December 31, 2016 were \$888,753 or a decrease of 3.04%. This decrease was due reclassifying tap fees as capital contributed and not as operating revenue. Tap fees for the year were \$34,460. Interest income, and other income sources remained comparable.

Operating expenses for the year ending December 31, 2016 were \$1,176,684 or an increase of 43.18%. Expenses were up due to increase in salaries and less repair and maintenance being capitalized.

The District recognizes noncash pension expense. As of December 31, 2016, the District recognized \$15,894 in noncash pension expense.

Total assets for the year ending December 31, 2016 were \$3,786,639 or an decrease of 2.08% while total liabilities were \$920,560 or a ncrease of 31.67%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of management's discussion and analysis, financial statements, and supplementary information. The financial statements include notes, which explain in detail some of the information included in the financial statements.

The financial statements present the financial position of the Jonathan Creek Water District as of December 31, 2016 and the results of its operations and cash flows for the years then in conformity with generally accepted accounting principles.

The revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position. This statement measures the success of Jonathan Creek Water District's operations over the past year.

Jonathan Creek Water District
Summary of Net Position
December 31, 2016 and 2015

	2016	2015
Assets:		
Total current assets	\$ 275,202	\$ 346,111
Net capital assets	3,483,506	3,507,128
Other assets	<u>27,931</u>	<u>13,505</u>
Total assets	<u>\$ 3,786,639</u>	<u>\$ 3,866,744</u>
Deferred outflows	\$ 87,297	\$ 53,830
Liabilities:		
Total current liabilities	\$ 202,319	\$ 414,370
Total long-term liabilities	<u>718,241</u>	<u>284,772</u>
Total liabilities	<u>\$ 920,560</u>	<u>\$ 699,142</u>
Net Position:		
Invested in capital asses, net of related debt	\$ 2,947,612	\$ 3,160,146
Restricted for customer deposits	27,931	-
Unrestricted	<u>(22,167)</u>	<u>61,286</u>
Total net position	<u>\$ 2,953,376</u>	<u>\$ 3,221,432</u>

The Net Position for the year ending December 31, 2016 showed a decrease of \$268,056 or approximately 8.3% from the previous year. This decrease was due to a decrease in capital assets and unrestricted net assets.

Jonathan Creek Water District
Summary of Changes in Net Position
December 31, 2016

	2016	2015
Total operating revenues	\$ 888,753	\$ 916,264
Total operating expenses	<u>1,176,684</u>	<u>821,804</u>
Operating income	\$ (287,931)	\$ 94,460
Total Nonoperating revenues (expense)	<u>(14,585)</u>	<u>10,502</u>
Income (Loss) before capital contributions	\$ (302,516)	\$ 104,962
Capital contributions	<u>34,460</u>	<u>-</u>
Change in net positon	\$ (268,056)	\$ 104,962

Net position decreased \$268,056 from the previous year. This decrease was due to an increase in operating expenses from the previous year.

The largest portion 99.80% of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. This represents 6.72% decrease from the prior year.

Restricted net position represent resources that are subject to external restrictions on how they may be used. The District had \$0 in restricted net position as of December 31, 2016.

The balance (0.0020%) of unrestricted net position may be used to meet the District's ongoing obligations to citizens, consumers and creditors.

CAPITAL ASSET CHANGE

Capital Assets for the year ending December 31, 2016 were \$3,483,506, which was a net decrease of \$23,622 or 1% due to retiring assets in 2016 by the District.

BUDGETARY HIGHLIGHTS

The Jonathan Creek Water District adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised.

DEBT ADMINISTRATION

At December 31, 2016, the District had \$535,894 in loans outstanding. The District incurred \$14,905 in interest expense associated with long term debt. Principal payments on loans amounted to \$436,661 for the year.

REQUEST FOR INFORMATION

This analysis is designed to provide a general overview of the Jonathan Creek Water District's finances and to demonstrate the Jonathan Creek Water District's accountability for the funds it receives whether from water sales or construction proceeds. If you have any questions about this report or need any additional information, please contact the Jonathan Creek Water District at 7564 U.S. Highway 68 E, Benton, Kentucky, 42025 or by telephone at (270) 354-8474.

JONATHAN CREEK WATER DISTRICT
Statement of Net Position
December 31, 2016

Assets

Current Assets

Cash	\$	73,434
Accounts Receivable - customer (less allowance of \$6,961)		121,583
Inventory		67,737
Prepaid Expenses		12,448
Total Current Assets		275,202

Non-current Assets

Restricted Assets

Cash - restricted		27,931
Total Restricted Assets		27,931

Capital Assets

Land		16,225
Utility Plant in Service		7,516,672
Accumulated Depreciation and Amortization		(4,049,391)
Net Capital Assets		3,483,506
Total Non-current Assets		3,511,437

Total Assets	\$	3,786,639
--------------	----	-----------

Deferred outflows of resources		87,297
--------------------------------	--	--------

JONATHAN CREEK WATER DISTRICT
Statement of Net Position – Concluded
December 31, 2016

Current Liabilities	
Accounts Payable	\$ 31,657
Other accrued liabilities	<u>25,462</u>
Total Current Liabilities	<u>57,119</u>
Liabilities Payable from Restricted Assets	
Current Maturities of Long-Term Debt	115,097
Customer Deposits	<u>30,103</u>
Total Liabilities Payable from Restricted Assets	<u>145,200</u>
Long-term Liabilities	
Net pension liability	297,444
Long-term debt, less current maturities	<u>420,797</u>
Total Long-term Liabilities	<u>718,241</u>
Total Liabilities	<u>920,560</u>
Net Position	
Net Position	
Invested in Capital Assets, net of Related Debt	2,947,612
Restricted for customer deposits	27,931
Unrestricted	<u>(22,167)</u>
Total Net Position	<u>\$ 2,953,376</u>

JONATHAN CREEK WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016

Operating revenues:

Charges for sales and services	\$ 877,404
Penalty revenue	10,150
Miscellaneous	1,199
Total operating revenues	888,753

Operating expenses:

Cost of sales and service	705,438
Maintenance	49,537
Customer accounts	53,895
General and administrative	153,127
Depreciation	214,687
Total operating expenses	1,176,684

Operating income	(287,931)
------------------	-----------

Non-operating revenue (expenses):

Interest income	320
Interest expense	(14,905)
Total non-operating revenue (expenses)	(14,585)

Income/(loss) before capital contributions	(302,516)
--	-----------

Capital contributions

Tap Fees	34,460
Total capital contributions	34,460

Change in net position	(268,056)
------------------------	-----------

Net position:

Beginning of year, restated	3,221,432
End of year	\$ 2,953,376

JONATHAN CREEK WATER DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash flows from operating activities:	
Cash receipts from customers	\$ 888,753
Cash payments to suppliers for goods and services	(649,539)
Cash payments to employees for services	<u>(310,501)</u>
Net cash provided (used) by operating activities	<u>(71,287)</u>
 Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(436,661)
Proceeds from long-term debt	625,573
Interest paid on long-term debt	(14,905)
Additions to capital assets	(191,064)
Capital contributions	<u>34,460</u>
Net cash provided (used) in financing activities	<u>17,403</u>
 Cash flows from investing activities:	
Interest income	<u>320</u>
Net cash provided (used) in investing activities	<u>320</u>
 Net increase (decrease) in cash and cash equivalents	
	(53,564)
Cash and cash equivalents, beginning of year	<u>154,929</u>
Cash and cash equivalents, end of year	<u><u>\$ 101,365</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (287,931)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Pension expense	(15,894)
Pension contributions subsequent to the measurement date	44,324
Depreciation and amortization	214,687
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(61,653)
(Increase) decrease in prepaid expenses	(944)
Increase (decrease) in net pension liability	12,672
Increase (decrease) in accounts payable	1,651
Increase (decrease) in accrued expenses	9,955
Increase (decrease) in customer deposits	<u>11,846</u>
Net cash provided (used) by operating activities	<u><u>\$ (71,287)</u></u>

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

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2016

Note 1 – Description of Entity and Summary of Significant Accounting Policies

Organization

The Jonathan Creek Water District was organized to provide water service to the residents of Benton, Kentucky and the surrounding areas. The District is governed by a five member Board, appointed by the County Judge of Marshall County.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the District's financial statements. The District is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Position.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (i) invested in capital assets, net of related debt, (ii) restricted, and (iii) unrestricted.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2016

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- *Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* - This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Receivables

The District uses an allowance of uncollectable accounts method to account for bad debts. Accounts receivable is shown net of this allowance. The allowance is based on past history and management’s analysis of the current accounts. As of December 31, 2016, The District has an allowance balance of \$6,961,

Capital Assets

The utility plant in service is stated at cost. The cost of additions to the utility plant and major replacements of retired units of property is capitalized. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Depreciation expense for the year ending December 31, 2016 was \$214,687.

The estimated useful lives of capital assets are as follows:

Utility plant	25-50 years
Equipment	5-10 years

Cash and Investments

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2016

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

Operating Revenues and Expenses

Operating revenues consist of those revenues that result from the ongoing principal operations of the District. Operating expenses consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Inventory

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capital addition as inventory items are consumed.

Use of Estimates

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

Compensated Absences

Accumulated paid time off amounts are accrued when benefits vest to employees and the unpaid liability is reflected in accrued liabilities. On each employee anniversary date, they will receive their allotted number of paid time off hours based on years of service. Any employee who does not use all hours before next anniversary date, will be paid out any remaining hours and none will roll forward to the next anniversary year.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2016

Note 2 – Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	For the Year Ended December 31, 2016			
	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets not being depreciated</i>				
Land and Rights	\$ 16,225	\$ -	\$ -	\$ 16,225
Total Non-Depreciable Capital Assets	<u>16,225</u>	<u>-</u>	<u>-</u>	<u>16,225</u>
<i>Capital Assets being depreciated:</i>				
Transmission & Distribution Main	4,602,877	48,805	(63,360)	4,588,322
Transportation Equipment	103,836	-	-	103,836
Distribution Reservoirs	695,189	4,845	-	700,034
Commercial Equipment	108,403	-	-	108,403
Hydrants	83,166	-	-	83,166
Meters & Meter Installation	561,088	45,007	(5,600)	600,495
Pumping Equipment	307,543	1,958	-	309,501
Water Treatment Equipment	380,460	574	-	381,034
Tools, Shop, Garage	22,899	1,987	-	24,886
Office Furniture & Equipment	32,869	533	-	33,402
Misc. Equipment Assets	175,655	8,166	-	183,821
Power Operated Equipment	102,229	-	-	102,229
Communication Equipment	1,958	-	-	1,958
Structures & Improvements	43,486	-	-	43,486
Wells and Springs	91,457	79,189	-	170,646
Services	75,751	-	-	75,751
Organization	5,702	-	-	5,702
Total Capital Assets being depreciated	<u>7,394,568</u>	<u>191,064</u>	<u>(68,960)</u>	<u>7,516,672</u>
Less: Accumulated Depreciation for Utility plant in service	<u>(3,903,664)</u>	<u>(214,687)</u>	<u>68,960</u>	<u>(4,049,391)</u>
Total capital assets, being depreciated net	<u>3,490,904</u>			<u>3,467,281</u>
Total Net Capital Assets	<u>\$ 3,507,129</u>			<u>\$ 3,483,506</u>

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2016

Note 3 – Long-Term Debt

Long-term debt consists of the following at December 31, 2016:

CFSB loan #2 was used to refinance the balance of CFSB loan #1 and to purchase capital assets. The interest rate of the loan is 3.15% and will mature April 15, 2021. Payments of \$10,850.22 are due in monthly installments.

	<u>\$ 535,894</u>
Total debt	<u><u>\$ 535,894</u></u>

Principal and interest maturities of long-term debt are as follows:

	Principal	Interest	Total
2017	\$ 115,097	\$ 15,111	\$ 130,208
2018	118,745	11,462	130,207
2019	122,510	7,697	130,207
2020	126,393	3,814	130,207
2021	53,149	387	53,536
	<u>\$ 535,894</u>	<u>\$ 38,471</u>	<u>\$ 574,365</u>

Long-term debt activities for the year ended December 31, 2016 are as follows:

	For the Year Ended December 31, 2016				
	Beginning Balance	Additions	Debt Payments and Reductions	Ending Balance	Amount due within One Year
CFSB Loan #2	\$ -	\$ 600,573	\$ (64,679)	\$ 535,894	\$ 115,097
CFSB Loan #1	346,982	25,000	(371,982)	-	-
	<u>\$ 346,982</u>	<u>\$ 625,573</u>	<u>\$ (436,661)</u>	<u>\$ 535,894</u>	<u>\$ 115,097</u>

Note 4 – Cash and Investments

The carrying amount of the District's cash deposits was \$101,365 year ending December 31, 2016 and the bank balance, was \$103,953. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. All deposits are held at Community Financial Services Bank. All deposits are insured under FDIC.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2016

Note 5 – Pension Plan

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

The District participates in the County Employee Retirement System (CERS), a cost-sharing multiple-employer retirement system administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). CERS is a defined benefit plan created by the Kentucky General Assembly. The Plan covers substantially all full-time employees. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the State legislature. Benefits fully vest upon reaching 5 years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. 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 service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 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.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.com.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2016

Note 5 – Pension Plan, Continued

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:

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

At December 31, 2016, the District reported a liability for its proportionate share of the net pension liability for CERS.

District's proportionate share of the CERS net pension liability	\$ 297,444
--	------------

The net pension liability for each 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 .00692% for non-hazardous.

For the year ended December 31, 2016, the District recognized pension expense of \$23,529. At December 31, 2016, 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 in the of the pension liability	\$ 2,472	\$ -
Net difference between projected and actual earnings on pension plan investments	2,666	-
Changes in assumptions	29,994	-
Changes in proportion and differences between employer contributions and proportionate share of contributions.	7,841	-
District contributions subsequent to the measurement date	44,324	-
	<u>\$ 87,297</u>	<u>\$ -</u>

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2016

Note 5 – Pension Plan, Continued

The fiscal year 2016 CERS employer contributions are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred inflows related to pensions will be amortized over five years and recognized in pension expense as follows:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	
2017	\$ 11,351	\$ -	
2018	11,351	-	
2019	11,351	-	
2020	6,819	-	
2021	2,101	-	
Total	<u>\$ 42,973</u>	<u>\$ -</u>	

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%
Projected salary increases	4.00%
Investment rate of return, net of investment expense and inflation	7.50%

Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

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, 2016

Note 5 – Pension Plan, Concluded

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.00%	5.40%
Combined Fixed Income	19.00%	1.50%
Real Return	10.00%	3.50%
Real Estate	5.00%	4.50%
Absolute Return	10.00%	4.25%
Private Equity	10.00%	8.50%
Cash Equivalent	<u>2.00%</u>	-0.25%
	<u>100.00%</u>	

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.

The following table presents the net pension liability of the District, calculated using the discount rates selected by CERS, 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 and 1-percentage point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Discount Rate	6.50%	7.50%	8.50%
District's Proportionate share of net pension liability	379,830	297,444	227,042

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CERS.

Non-hazardous position employees are required to contribute 5% of gross compensation to the plan. The Board of Trustees of KRS also determines the District's required contribution annually, 17.67% for the year ended June 30, 2016. For the year ended December 31, 2016, the District's total covered payroll was approximately \$241,000. The District contributed approximately \$44,500 and employees contributed approximately \$12,000 to the plan.

JONATHAN CREEK WATER DISTRICT
Notes to Financial Statements
December 31, 2016

Note 6 – Deferred Inflows/Deferred Outflows 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 or fund balance that applies to future periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has a balance of \$87,297 as of December 31, 2016.

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 an acquisition of net position or fund balance 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 reporting in this category.

Note 7- Subsequent Events

Management has evaluated subsequent events through April 28, 2017, the date which the financial statements were available to be issued.

Note 8 - Restatement

Net position at the end of 2015 has been restated for a correction of an error. The District had not previously recorded a receivable for unbilled revenue. The effect of this change was an increase in net position of \$65,516 at December 31, 2015.

Net position as originally reported	\$ 3,155,917
Unbilled revenue	<u>65,515</u>
Ne position, restated	<u>\$ 3,221,432</u>

Required Supplementary Information

JONATHAN CREEK WATER DISTRICT
Schedule of the Proportionate Share of the Net Pension Liability - CERS
December 31, 2016

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Company's portion of the net pension liability	0.006920%	0.006620%
Company's proportionate share of net pension liability	\$ 297,444	\$ 284,772
Company's covered-employee payroll	\$ 240,844	\$ 201,612
Company's proportionate share of the net pension liability as a percentage of its covered-employee payroll	123.50%	141.25%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.79%

** Schedule is intended to show information for ten years.
 Additional years will be displayed as they become available.

JONATHAN CREEK WATER DISTRICT
Schedule of Contributions - CERS
December 31, 2016

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Contractually required contribution	\$ 44,324	\$ 34,602
Contributions in relation to the contractually required contribution	<u>(44,324)</u>	<u>(34,602)</u>
	<u>\$ -</u>	<u>\$ -</u>
 Company's covered-employee payroll	 \$ 240,844	 \$ 201,612
Contributions as a percentage of covered-employee payroll	18.40%	17.16%

**Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

JONATHAN CREEK WATER DISTRICT
Notes to the Schedule of Contributions - CERS
For the Year Ended December 31, 2016

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated. The changes are noted below.

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Assumed investment rate of return	7.50%	7.75%
Assumed rate of inflation	3.25%	3.50%
Assumed rate of wage inflation	0.75%	1.00%
Assumed payroll growth	4.00%	4.50%

The mortality table used for active members in RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

Supplementary Information

JONATHAN CREEK WATER DISTRICT
Schedule of Operating Income and Expenses
For the Year Ended December 31, 2016

Operating revenues:

Gross water sales	\$ 877,404
Fees:	
Penalty revenue	10,150
Miscellaneous	1,199
	11,349
Total operating revenues	\$ 888,753

Operating expenses:

Cost of sales and services:	
Supply and pumping expense	\$ 140,188
Employee pension and benefits	49,456
Water treatment expense	231,654
Transmission and distribution expense	284,140
	705,438

Maintenance:

Equipment rental	3,867
Materials and supplies	45,670
	49,537

Customer account expense:

Salaries and wages	37,193
Employee pension and benefits	7,746
Bad debt expense, net of recoveries	8,956
	53,895

Administrative and general expenses

Salaries and wages	35,844
Employee benefits	2,383
Office materials and supplies	7,802
Contractual services	9,499
Dues and subscriptions	1,953
Insurance	14,996
Advertising	122
Professional fees	5,293
Educational and training	4,441
Alarm system	2,287
Bank service charges	982
Loan service fees	711
Telephone	13,414
Taxes and licenses	27,895
Miscellaneous	25,505
	153,127

Provision for depreciation	214,687
----------------------------	---------

Total operating expense	\$ 1,176,684
-------------------------	--------------

**JONATHAN CREEK WATER DISTRICT
Schedule of Water Rates in Force
For the Year Ended December 31, 2016**

Water

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

<u>Residential rate schedule</u>	<u>Base</u>
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

<u>Commercial rate schedule</u>	
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

**JONATHAN CREEK WATER DISTRICT
Schedule of Findings and Responses
For the Year Ended December 31, 2016**

2016-001

Condition:

While performing our audit procedures of the District, it was determined that all balance sheet accounts were not being reconciled.

Criteria:

All accounts should be reconciled on a monthly basis.

Cause:

The District did not have beginning balances of balance sheet accounts nor had qualified personnel to reconcile the accounts.

Effect:

If accounts are not reconciled in a timely manner, the financial statements as a whole could be materially misstated. Also, the District is left vulnerable to possible misappropriation or theft without District personnel detecting it.

Recommendation:

We recommend the District reconcile all accounts on a monthly basis.

Response:

District personnel will reconcile accounts in a timely manner.

2016-002

Condition:

Auditors 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:

District personnel were unable to properly reconcile statement of net position accounts due to not having beginning balances booked.

Cause:

The District did not roll forward the balance sheet accounts to the next fiscal year.

Effect:

The District is at a greater risk of fraud, loss, and undetected errors.

Recommendations:

We recommend that the statement of net position accounts be rolled forward each year in the District's accounting system.

Response:

The District has software that roll the balances forward each year and will begin doing so once 2016 adjustments are posted.

JONATHAN CREEK WATER DISTRICT
Schedule of Findings and Responses, Continued
For the Year Ended December 31, 2016

2016-003

Condition:

During the audit, it was noted that certain qualifying purchases did not have a bid brought before the Board in accordance with KRS 424.260 statute.

Criteria:

Under KRS 424.260 statute, KRS requires all purchases in excess of \$20,000 to have three bids brought before the Board.

Cause:

The District was not properly following the policies and procedures they had in place.

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.

Recommendations:

We recommend that the District follow the policy of obtaining three bids for all purchases in excess of \$20,000 to ensure the best price will be obtained and adequate documentation be retained as evidence of correct bidding procedure.

Response:

The District will follow proper bidding procedures.

2016-004

Condition:

While performing our audit procedures relating to payroll, it was noted that employees were inappropriately accruing comp time.

Criteria:

KRS 337.285 sets forth rules associated with overtime pay and comp time.

Cause:

The District was not properly verifying the comp time hours that were being recorded into the payroll accounting system.

Effect:

Employees were accruing more comp time hours than actually earned and receiving additional wages for unearned hours of work.

Recommendation:

We recommend that the District verify that all comp time is being accrued for hours worked.

Response:

The District has dissolved the comp time policy and is currently paying out any remaining comp time hours to the employees.

**JONATHAN CREEK WATER DISTRICT
Schedule of Findings and Responses, Concluded
For the Year Ended December 31, 2016**

2016-005

Condition:

During the audit, it was noted that the District has a lack of segregation of duties in their Internal Control function.

Criteria:

Proper Internal Controls will reduce the risk of possible misappropriation of assets and fraud.

Cause:

The District employs two office personnel.

Effect:

With the lack of personnel, the District lacks proper segregation of duties that would allow it to detect fraud or errors in a timely manner.

Recommendations:

We recommend the District use a member of management or a member of the board to make bank deposits of all cash funds collected at the District.

Response:

Management decided the individual responsible for reconciling the cash account, will not make deposits to the bank or sign checks.

JONATHAN CREEK WATER DISTRICT
Schedule of Prior Year Findings and Responses
For the Year Ended December 31, 2016

Prior Year Findings

Reference number 2015-001

Prior year condition:

While testing the accounts of the District, it was determined that all Statement of Net Position accounts were not being reconciled.

Current year condition:

The status of this prior year finding has been repeated in the current year, see current year reference number 2016-001.

Reference number 2015-002

Prior year condition:

Auditors 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.

Current year condition:

The status of this prior year finding has been repeated in the current year, see current year reference number 2016-002.

Reference number 2015-003

Prior year condition:

During the audit, it was noted that certain qualifying purchases did not have a bid and brought before the Board in accordance with District policy.

Current year condition:

The status of this prior year finding has been repeated in the current year, see current year reference number 2016-003.

Reference number 2015-004

Prior year condition:

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

Current year condition:

Timely deposits were being made, any drawer overage and shortages were being recorded and cash on hand was adjusted to actual.



Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA

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

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 business-type activities, of the Jonathan Creek Water District, as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the Jonathan Creek Water District's basic financial statements, and have issued our report thereon dated April 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we 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 our 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, we do not express an opinion on the effectiveness of the Jonathan Creek Water 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 schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses, 2016-001, 2016-002, 2016-003 and 2016-004.

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 deficiency described in the accompany schedule of findings and responses to be a significant deficiency, 2016-005.

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, 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*.

Jonathan Creek Water District's Response to Findings

Jonathan Creek Water District's response to the findings identified in our 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, we express no opinion on it.

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.

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
April 28, 2017

