

**Jonathan Creek Water District**

**Financial Statements**

**December 31, 2017**



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Cindy L. Greer, CPA • L. Joe Rutledge, CPA • Jonathan W. Belcher, CPA • R. Brent Billingsley, CPA  
Skip R. Campbell, CPA • Ryan A. Mosier, CPA • Jenna B. Glass, CPA • Sharon Waggener, 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, 2017, 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 of Jonathan Creek Water District, as of December 31, 2017, 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 21-22 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 May 16, 2018, 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

May 16, 2018

**Jonathan Creek Water District  
Management's Discussion and Analysis  
December 31, 2017**

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, 2017. This information presented in conjunction with the audited financial statements that follow this section.

**FINANCIAL HIGHLIGHTS**

Operating revenues for year ending December 31, 2017 were \$902,010 or an increase of 1.49%. This increase was due to collecting more penalty and disconnection fees. Tap fees for the year were \$32,650. Interest income, and other income sources remained comparable.

Operating expenses for the year ending December 31, 2017 were \$1,080,045 or a decrease of 8.21%. Expenses were mainly down due to depreciation expense being less than prior year and tank cleaning expense was less as well.

The District recognizes noncash pension expense. As of December 31, 2017, the District recognized \$66,553 in noncash pension expense.

Total assets for the year ending December 31, 2017 were \$3,979,264 or an increase of 5.09% while total liabilities were \$1,401,924 or an increase of 52.29%. Assets increased due to the addition of capital assets and liabilities increased due to funding the addition of capital assets and the net pension liability increased as well.

**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, 2017 and the results of its operations and cash flows for the year then ended 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  
Management's Discussion and Analysis  
December 31, 2017**

Jonathan Creek Water District  
Summary of Net Position  
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Total current assets	\$ 237,165	\$ 275,202
Net capital assets	3,721,088	3,483,506
Other assets	<u>21,011</u>	<u>27,931</u>
Total assets	<u>3,979,264</u>	<u>3,786,639</u>
Deferred outflows	<u>212,906</u>	<u>87,297</u>
Liabilities:		
Total current liabilities	368,389	202,319
Total long-term liabilities	<u>1,033,535</u>	<u>718,241</u>
Total liabilities	<u>1,401,924</u>	<u>920,560</u>
Net Position:		
Invested in capital asses, net of related debt	2,920,896	2,947,612
Restricted for customer deposits	21,011	27,931
Unrestricted	<u>(151,661)</u>	<u>(22,167)</u>
Total net position	<u>\$ 2,790,246</u>	<u>\$ 2,953,376</u>

The Net Position for the year ending December 31, 2017 decreased \$163,130 or approximately 5.5% from the previous year. This decrease was due to an increase in total liabilities and operating expenses exceeded operating revenue.

Jonathan Creek Water District  
Summary of Changes in Net Position  
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Total operating revenues	\$ 902,010	\$ 888,753
Total operating expenses	<u>1,080,045</u>	<u>1,176,684</u>
Operating income	(178,035)	(287,931)
Total Nonoperating revenues (expense)	<u>(17,745)</u>	<u>(14,585)</u>
Income (Loss) before capital contributions	(195,780)	(302,516)
Capital contributions	<u>32,650</u>	<u>34,460</u>
Change in net positon	(163,130)	(268,056)
Net position, beginning of year	<u>2,953,376</u>	<u>3,221,432</u>
Net position, end of year	<u>\$ 2,790,246</u>	<u>\$ 2,953,376</u>



**Jonathan Creek Water District  
Management's Discussion and Analysis  
December 31, 2017**

The largest portion 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 0.91% decrease from the prior year.

Restricted net position represents resources that are subject to external restrictions on how they may be used. The District had \$21,011 in restricted net position as of December 31, 2017.

The balance 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, 2017 were \$3,721,088, which was a net increase of \$237,582 or 6.82% due to purchasing new assets during the year.

#### 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, 2017, the District had \$800,192 in loans outstanding. The District incurred \$20,761 in interest expense associated with long term debt. Principal payments on loans amounted to \$133,495 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, 2017**

**Assets**

**Current Assets**

Cash	\$ 13,376
Accounts Receivable - customer (less allowance of \$6,961)	131,752
Inventory	78,525
Prepaid Expenses	13,512
Total Current Assets	237,165

**Non-current Assets**

Restricted Assets	
Cash - meter deposits	21,011
Total Restricted Assets	21,011

Capital Assets

Land	16,225
Utility Plant in Service	7,915,379
Accumulated Depreciation and Amortization	(4,210,516)
Net Capital Assets	3,721,088
Total Non-current Assets	3,742,099

Total Assets	\$ 3,979,264
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Deferred outflows of resources	\$ 212,906
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**JONATHAN CREEK WATER DISTRICT**  
**Statement of Net Position – Concluded**  
**December 31, 2017**

**Liabilities**

**Current Liabilities**

Accounts payable	\$ 52,856
Other accrued liabilities	18,722
Total Current Liabilities	<u>71,578</u>

**Liabilities Payable from Restricted Assets**

Current maturities of long-term debt	256,250
Customer deposits	40,561
Total Liabilities Payable from Restricted Assets	<u>296,811</u>

**Long-term Liabilities**

Net pension liability	489,593
Long-term debt, less current maturities	543,942
Total Long-Term Liabilities	<u>1,033,535</u>

Total Liabilities	<u>1,401,924</u>
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**Net Position**

**Net Position**

Invested in capital assets, net of related debt	2,920,896
Restricted for customer deposits	21,011
Unrestricted	<u>(151,661)</u>

<b>Total Net Position</b>	<b><u>\$ 2,790,246</u></b>
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**JONATHAN CREEK WATER DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31, 2017**

**Operating revenues:**

Water sales	\$ 883,817
Penalty collections	14,553
Other	3,640
Total operating revenues	902,010

**Operating expenses:**

Pumping	258,963
Purification	13,191
Distribution	259,037
General & administration	364,180
Depreciation	184,675
Total operating expenses	1,080,045
Operating income	(178,035)

**Non-operating revenue (expenses):**

Gain/(loss) on disposal of assets	2,900
Interest revenue	116
Interest expense on bonds	(20,761)
Total non-operating revenue (expenses)	(17,745)

Income/(loss) before capital contributions	(195,780)
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Capital contributions	32,650
	32,650

Change in net position	(163,130)
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**Net Position:**

Beginning of year	2,953,376
End of year	\$ 2,790,246

**JONATHAN CREEK WATER DISTRICT**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2017**

**Cash flows from operating activities:**

Cash receipts from customers	\$ 902,010
Cash payments to suppliers for goods and services	(445,816)
Cash payments to employees for services	(377,218)
Net cash provided (used) by operating activities	<u>78,976</u>

**Cash flows from capital and related financing activities:**

Principal paid on long-term debt	(133,495)
Proceeds from long-term debt	397,793
Interest paid on long-term debt	(20,761)
Additions to capital assets	(422,257)
Capital contributions	32,650
Net cash provided (used) in financing activities	<u>(146,070)</u>

**Cash flows from investing activities:**

Interest income	<u>116</u>
Net cash provided (used) in investing activities	<u>116</u>

**Net increase (decrease) in cash and cash equivalents** (66,978)

Cash and cash equivalents, beginning of year	<u>101,365</u>
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**Cash and cash equivalents, end of year** \$ 34,387

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$ (178,035)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Gain/(loss) on disposal of asset	2,900
Depreciation and amortization	184,675
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(10,169)
(Increase) decrease in inventory	(10,788)
(Increase) decrease in prepaid expenses	(1,064)
(Increase) decrease in deferred outflows	(125,609)
Increase (decrease) in net pension liability	192,149
Increase (decrease) in accounts payable	21,199
Increase (decrease) in accrued expenses	(6,740)
Increase (decrease) in customer deposits	10,458
Net cash provided (used) by operating activities	<u>\$ 78,976</u>

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

**JONATHAN CREEK WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**

**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, 2017**

**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. At December 31, 2017, the allowance for uncollectable accounts was \$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. The District has re-evaluated its estimated useful lives of assets and as a result, most assets have a longer useful life. This change will cause depreciation to be less in the current year. Depreciation expense for the year ending December 31, 2017 was \$184,675.

The estimated useful lives of capital assets are as follows:

Utility plant	20-62.5 years
Equipment	5-13 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.

**JONATHAN CREEK WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**

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

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.

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 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 their next anniversary date, may carry forward a maximum of 5 (five) days and will be paid out any remaining unused hours.



**JONATHAN CREEK WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 2 – Capital Assets**

Capital asset activity for the year ended December 31, 2017, was as follows:

	For the Year Ended December 31, 2017			
	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	16,225	-	-	16,225
<i>Capital Assets being depreciated:</i>				
Transmission & Distribution Main	4,588,322	-	-	4,588,322
Transportation Equipment	103,836	-	-	103,836
Distribution Reservoirs	700,034	-	-	700,034
Commercial Equipment	108,403	-	-	108,403
Hydrants	83,166	-	-	83,166
Meters & Meter Installation	600,495	29,003	(20,050)	609,448
Pumping Equipment	309,501	47,803	-	357,304
Water Treatment Equipment	381,034	-	-	381,034
Tools, Shop, Garage	24,886	-	-	24,886
Office Furniture & Equipment	33,402	-	-	33,402
Misc. Equipment Assets	183,826	13,608	(3,500)	193,934
Power Operated Equipment	102,229	331,843	-	434,072
Communication Equipment	1,958	-	-	1,958
Structures & Improvements	43,486	-	-	43,486
Wells and Springs	170,641	-	-	170,641
Services	75,751	-	-	75,751
Organization	5,702	-	-	5,702
Total Capital Assets being depreciated	7,516,672	422,257	(23,550)	7,915,379
Less: Accumulated Depreciation for Utility plant in service	(4,049,391)	(184,675)	23,550	(4,210,516)
Total capital assets, being depreciated net	3,467,281			3,704,863
Total Net Capital Assets	\$ 3,483,506			\$ 3,721,088

**JONATHAN CREEK WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 3 – Long-Term Debt**

Long-term debt consists of the following at December 31, 2017:

Line of credit was used to help fund operating expenses. The interest rate of the line of credit is 4.75% and each installment borrowed is due in 60 (sixty) months.	\$ 83,500
Ditch Witch Financial was used to purchase capital assets. The interest rate of the loan is 3.76% and will mature September 15, 2022. Payments of \$5,746 are due in monthly installments.	295,577
CFSB loan 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 are due in monthly installments.	<u>421,115</u>
<b>Total debt</b>	<b><u>\$ 800,192</u></b>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 256,250	\$ 20,660	\$ 276,910
2019	183,549	15,607	199,156
2020	189,729	9,427	199,156
2021	118,967	3,616	122,583
2022	51,697	233	51,930
	<u>\$ 800,192</u>	<u>\$ 49,543</u>	<u>\$ 849,735</u>

Long-term debt activities for the year ended December 31, 2017 are as follows:

	<u>For the Year Ended December 31, 2017</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Debt Payments and Reductions</u>	<u>Ending Balance</u>	<u>Amount due within One Year</u>
CFSB Loan	\$ 535,894	\$ -	\$ (114,779)	\$ 421,115	\$ 118,745
Line of Credit	-	83,500	-	83,500	83,500
Ditch Witch Financial	-	314,293	(18,716)	295,577	54,005
	<u>\$ 535,894</u>	<u>\$ 397,793</u>	<u>\$ (133,495)</u>	<u>\$ 800,192</u>	<u>\$ 256,250</u>

**Note 4 – Cash and Investments**

The carrying amount of the District's cash deposits was \$34,387 year ending December 31, 2017 and the bank balance, was \$46,723. 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, 2017**

**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.ky.gov](http://www.kyret.ky.gov).

**JONATHAN CREEK WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**

**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, 2017, the District reported a liability of \$489,593 for its proportionate share of the net pension liability for CERS.

The net pension liability for each plan was measured as of June 30, 2016, 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, 2016, the District's proportion was .009940% for non-hazardous.

For the year ended December 31, 2017, the District recognized pension expense of \$130,526. At December 31, 2017, 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 measurement of the total pension liability	\$ 3,278	\$ -
Net difference between projected and actual earnings on pension plan investments	38,953	-
Changes in assumptions	39,779	-
Changes in proportion and differences between employer contributions and proportionate share of contributions.	66,910	-
District contributions subsequent to the measurement date	63,986	-
	<u>\$ 212,906</u>	<u>\$ -</u>

**JONATHAN CREEK WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 5 – Pension Plan, Continued**

The fiscal year 2017 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, 2018. 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>
2018	\$ 53,950	\$ -
2019	53,950	-
2020	29,715	-
2021	11,305	-
2022	-	-
Total	<u>\$ 148,920</u>	<u>\$ -</u>

*Actuarial assumptions*—The total pension liability in the June 30, 2016 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 used for active members is the 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 one year for females). The RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) 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, 2017**

**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 (Diversified Inflation Strategies)	10.00%	3.50%
Real Estate	5.00%	4.50%
Absolute Return (Diversified Inflation Strategies)	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	609,583	489,593	386,138

*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, 18.68% for the year ended December 31, 2017. For the year ended December 31, 2017, the District's total covered payroll was approximately \$341,000. The District contributed approximately \$64,000 and employees contributed approximately \$19,000 to the plan.

**JONATHAN CREEK WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**

**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 \$212,906 as of December 31, 2017.

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 May 16, 2018, the date which the financial statements were available to be issued. The District has been approved by the Kentucky Public Service Commission to increase the water rates in force starting January 1, 2018. Please see the Statement of Water Rates in Force located in the supplementary information section for the approved rates.

**Required Supplementary Information**



**JONATHAN CREEK WATER DISTRICT**  
**Schedule of the Proportionate Share of the Net Pension Liability - CERS**  
**December 31, 2017**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Company's portion of the net pension liability	0.009940%	0.006920%	0.006620%
Company's proportionate share of net pension liability	\$ 489,593	\$ 297,444	\$ 284,772
Company's covered-employee payroll	\$ 341,265	\$ 240,844	\$ 201,612
Company's proportionate share of the net pension liability as a percentage of its covered-employee payroll	143.46%	123.50%	141.25%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	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, 2017**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Contractually required contribution	\$ 63,974	\$ 44,324	\$ 34,602
Contributions in relation to the contractually required contribution	<u>(63,974)</u>	<u>(44,324)</u>	<u>(34,602)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Company's covered-employee payroll	 \$ 341,265	 \$ 240,844	 \$ 201,612
Contributions as a percentage of covered- employee payroll	18.75%	18.40%	17.16%

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

## **Supplementary Information**

**JONATHAN CREEK WATER DISTRICT**  
**Schedule of Operating Expenses**  
**For the Year Ended December 31, 2017**

Pumping:	
Operations and maintenance:	
Labor	\$ 64,501
Payroll tax	4,934
Insurance	1,661
Fuel	14,239
Power	61,984
Building maintenance	14,044
Equipment maintenance	20,950
Other	2,500
	<u>184,813</u>
Purification:	
Chemicals	<u>13,191</u>
	<u>13,191</u>
Distribution:	
Operations and maintenance:	
Labor	148,175
Payroll tax	17,896
Insurance	18,605
Maintenance:	
Buildings	14,776
Meters and services	28,836
Hydrants and lines	19,230
Truck expense	4,126
Cell phone expense	2,563
Other	7,883
	<u>262,090</u>
General & administration:	
Board member salaries	27,230
Office salaries	137,313
Office supplies and expenses	20,456
Utilities	13,800
Insurance	3,536
Employees' insurance	31,760
Pension expense	63,974
Actuarial difference in pension expense	66,553
Taxes and licenses	13,058
Bad debts	1,394
Professional fees	18,853
Water billing service	16,766
Uniforms	3,865
Travel and trainings	4,203
Miscellaneous	12,515
	<u>435,276</u>
Total operating expenses	<u>\$ 895,370</u>
(exclusive of depreciation and amortization)	

**JONATHAN CREEK WATER DISTRICT**  
**Schedule of Water Rates in Force**  
**For the Year Ended December 31, 2017**

As of December 31, 2017

\$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

As of January 1, 2018

\$6.54 per every 1,000 gallons of water plus the base charge

<u>Residential rate schedule</u>	<u>Base</u>
Residential 5/8"	\$ 6.96
Residential 1"	\$ 13.45
Residential 1 1/2"	\$ 24.29
Residential 2"	\$ 37.28
Residential 3"	\$ 67.61
Residential 6"	\$ 219.22

<u>Commercial rate schedule</u>	
Commercial 5/8"	\$ 6.96
Commercial 1"	\$ 13.45
Commercial 1 1/2"	\$ 24.29
Commercial 2"	\$ 37.28
Commercial 3"	\$ 67.61
Commercial 6"	\$ 219.22

**JONATHAN CREEK WATER DISTRICT**  
**Schedule of Current Year Findings and Responses**  
**For the Year Ended December 31, 2017**

**2017-001**

**Condition:**

During the audit, it was noted that the District assumed a liability without proper approval as outlined under KRS 278.300 statute.

**Criteria:**

Under KRS 278.300 statute, KRS requires all utilities to obtain an order of authorization from the Public Service Commission before assuming any liabilities.

**Cause:**

The District was not properly following the policies and procedures provided by the Public Service Commission.

**Effect:**

The District has obtained liabilities without proper authorization, from the Public Service Commission which is an issue of noncompliance.

**Recommendations:**

We recommend that the District be informed of PSC guidelines.

**Response:**

The District will follow proper procedures to obtain any future authorization.

**2017-002**

**Condition:**

Effective internal controls rely on proper oversight of accounting records.

**Criteria:**

During the audit, it was noted that board members are not signing checks they approve.

**Cause:**

Effective review and oversight procedures are not in place.

**Effect:**

Payment for services could be rendered before proper approval.

**Recommendations:**

We recommend that the Board of Directors review the invoices and the treasurer sign all checks.

**Response:**

The Board treasurer will be a signer on all checks.

**JONATHAN CREEK WATER DISTRICT**  
**Schedule of Current Year Findings and Responses, Concluded**  
**For the Year Ended December 31, 2017**

**2017-003**

**Condition:**

Effective internal controls rely on proper oversight of accounting records.

**Criteria:**

During the audit, it was noted that the manager was reviewing employee timesheets; however, he was also an hourly employee but his timesheet was not reviewed. Also, the manager is reviewing timesheets of a related party.

**Cause:**

Effective review and oversight procedures are not in place.

**Effect:**

The board may be left unaware of the time required or the cost of its employees.

**Recommendations:**

We recommend that the Board of Directors review the manager's timesheet as well as any third party.

**Response:**

The Board will request all timesheets and payroll reports for their board meetings.

**JONATHAN CREEK WATER DISTRICT**  
**Schedule of Prior Year Findings and Responses**  
**For the Year Ended December 31, 2017**

Prior Year Findings

**Reference number 2016-001**

Prior year condition:

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

Current year condition:

The status of this prior year finding has been corrected.

**Reference number 2016-002**

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 corrected.

**Reference number 2016-003**

Prior year 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.

Current year condition:

The status of this prior year finding has been corrected.

**Reference number 2016-004**

Prior year condition:

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

Current year condition:

The status of this prior year finding has been corrected.

**Reference number 2016-005**

Prior year condition:

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

Current year condition:

The status of this prior year finding has been corrected.





Cindy L. Greer, CPA • L. Joe Rutledge, CPA • Jonathan W. Belcher, CPA • R. Brent Billingsley, CPA  
Skip R. Campbell, CPA • Ryan A. Mosier, CPA • Jenna B. Glass, CPA • Sharon Waggener, 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 Jonathan Creek Water District, as of and for the year ended December 31, 2017, 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 May 16, 2018.

**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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of current year findings and responses that we consider to be material weaknesses: 2017-002 and 2017-003.

## **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of current year findings and responses as items: 2017-001.

## **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 current year 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  
May 16, 2018

