

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS**

**Financial Statements and Supplemental Information**

**December 31, 2013**

**With Independent Auditors' Report Thereon**

**Fain, Mattingly & Associates, P.S.C.  
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100 John Sutherland Drive, Suite 2  
Nicholasville, Kentucky**

# JESSAMINE SOUTH ELKHORN WATER DISTRICT

## Table of Contents

	<u>Page(s)</u>
Management Discussion and Analysis	2 - 8
Independent Auditors' Report	9 - 11
Statement of Net Position – Proprietary Funds	12
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	13
Statement of Cash Flows – Proprietary Funds	14 - 15
Notes to Financial Statements	16 - 32
<b>Additional Supplemental Information</b>	
Combining Statement Balance Sheet –Proprietary Funds	34 - 35
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	36 - 37
Utilities Fund Schedule of Revenues and Expenses – Budget and Actual	38 - 43
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>	44 - 46
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	47 - 49
Schedule of Expenditures of Federal Awards	50
Schedule of Finding and Questioned Costs	51
Corrective Action Plan, Summary of Prior Year Findings	52

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**Water and Sewer Divisions**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management Discussion and Analysis (MD&A) offers the readers of the Jessamine South Elkhorn Water District's financial statements this narrative overview and analysis of the financial activities of the Jessamine South Elkhorn Water District, Inc for the fiscal year ended December 31, 2013.

Jessamine South Elkhorn Water District, Inc. (hereafter described as "the District") was established in 1970 under KRS chapter 74 for the purpose of furnishing water service in Jessamine County. In August 1995 the District formed the sewer division to provide collection services for residents of Jessamine County.

The District, consisting of Jessamine South Elkhorn Water District, Water Divisions, and Jessamine South Elkhorn Water District Sewer Division, has been consolidated for reporting purposes. The entities share the same board of commissioners, central offices and employees.

The District is a special district formed for the express purpose of providing water service within the confines of Jessamine County, Kentucky. The Jessamine County Fiscal Court appoints an independent board of commissioners to govern the district. The District operates as an independent entity in that it is legally separate: holds corporate powers of organization: the Fiscal Court does not impose their will upon the district: and the District does not impose financial benefit or burden upon the fiscal court. The primary source of revenue for the District is provided by the resale and transmission of city water to local and remote areas of Jessamine County. The district also has assumed the responsibility of providing sanitary sewer transmission to remote areas of the count.

**Highlights**

- The District's assets exceeded its liabilities by \$ 16,012,227 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$15,616,244.
- Total net position is comprised of the following:
  - Undesignated funds represent the portion available to maintain the District's continuing obligations to the citizens and creditors.

- The District's enterprise funds reported a total ending fund balance of \$16,012,227 this year. This compares to the prior year ending fund balance of \$15,616,244 showing an increase of \$ 395,983 during the current year.
- At the end of the current fiscal year, unreserved fund balance for the Enterprise Fund was \$298,394, or 10.16% of total Enterprise Fund expenditures including transfers and 8.84 % of total Enterprise Fund revenues including transfers.
- The liabilities for the District in the current year of \$6,335,955. Prior year liabilities were \$6,423,962.
- Plant assets primarily include transmission lines for both water and sewer, pump stations, holding tanks, pump vaults, a building and vehicles.
- Revenues are provided by 2,755 water and 614 sewer customers.

### **Overview of the Financial Statements**

Management's Discussion and Analysis introduces the District's basic financial statements. The basis financial statements include government-wide financial statements which are the same as the proprietary fund statements and notes to the financial statements. The first of these government-wide statements is the *Statement of Net Position*. This is a statement of the position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets.

The second government-wide statement is the Statement of Activities which reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

Business-type activities financial statements show the business-type activities that are intended to recover all or a significant portion of their costs through its activities. The District's business-type activities include development of sewer division and expansion of the water division to serve the citizens of Jessamine County.

Fund Financial Statements are used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance-related laws and regulations. The District only has the one fund and one business-type of activity. The District's proprietary fund, an enterprise fund, is reported as the government-wide financials, as they are both presented on the same basis.

The District uses the following funds for the water division:

Revenue Fund – The District deposits cash revenues of the utilities system, and to disburse as prescribed by bond covenants.

Operation and Maintenance Fund – The District deposits amounts equal to the estimated current expense of operating, maintaining, and insuring the system for the next ensuing month. The amounts shall be determined pursuant to the annual budget adopted by the District Board and are to be made to meet the reasonable and necessary expenses.

Depreciation Fund – The District deposits excess amounts from the Revenue Fund after provisions have first been made for the prescribed deposits, for the purpose of paying unusual or extraordinary maintenance repairs, renewals and replacement, during the life of the bond issues.

Reserve Fund – The District maintains the reserve fund account to meet a requirement that a bond reserve account of at least \$12,000 is to be maintained for the reserve required by the 2000 Bond Agreement

Construction Fund-This fund is to be used to construct additions, extensions, and improvements other than those of the Depreciation Fund.

At this time the sewer division operates one fund for all its activities.

### **Notes to the financial statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

### **Financial Analysis of the Jessamine South Elkhorn Water District as a Whole**

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the District as a whole.

The District's net position at fiscal year-end are \$ 16,012,227. This is an increase of \$395,983 over last year's net position of \$15,616,244. The following table provides a summary of the District's net position:

	Business-type Activities		13 less 12	
	12/31/13	12/31/12	Amount	Percent
			Change	Change
<b>Assets</b>				
Current and other Assets	557,485	615,912	(58,427)	-9.49%
Non-current assets	944,684	968,866	(24,182)	-2.50%
Deferred inflows	126,490	133,210	(6,720)	-5.04%
Capital assets	<u>20,719,523</u>	<u>20,322,218</u>	<u>397,305</u>	<u>1.96%</u>
<b>Total Assets</b>	22,348,182	22,040,206	307,976	1.40%
Current and other Liabilities	390,872	347,709	43,163	12.41%
Current Long-term Debt	91,741	114,589	(22,848)	-19.94%
Non-Current Long-term Debt	<u>5,853,342</u>	<u>5,961,664</u>	<u>(108,322)</u>	<u>-1.82%</u>
<b>Total Liabilities</b>	6,335,955	6,423,962	(88,007)	-100.00%
<b>Net Assets</b>				
Invested in Capital Assets,				
Net of depreciation	14,900,930	14,245,965	654,965	4.60%
Restricted	697,063	943,866	(246,803)	-26.15%
Unrestricted Unreserved	298,394	401,347	(102,953)	-25.65%
Unrestricted-board designated depreciation reserves	<u>115,840</u>	<u>25,066</u>	<u>90,774</u>	<u>362.14%</u>
<b>TOTAL NET ASSETS</b>	16,012,227	15,616,244	395,983	23.74%

The District reported positive balances in net position for proprietary activities. Net position increased \$ 395,983 for proprietary activities. The District's overall financial position increased during fiscal year 2013.

Because the District does not depend heavily upon interest income for operations and does not have any funds invested in the stock market, the decline in investment and market performance did not have a material effect.

Assets of the district have increased primarily due to the grant revenues for construction of water and sewer assets in the area.

Business-type expenditures during the current fiscal year were \$395,983 less than the revenues. The difference is attributable to construction grants.

Comparative data is accumulated and presented to assist analysis. The following table provides a summary of the District's changes in net assets:

	<b>Business-type Activities</b>		<b>Amount</b>	<b>Percent</b>
	<b>12/31/13</b>	<b>12/31/12</b>	<b>Change</b>	<b>Change</b>
General Revenues				
Water and Sewer Sales	\$ 2,436,851	\$ 2,719,575	\$ (282,724)	
Penalties	32,342	31,252	1,090	
Service charges	16,369	16,924	(555)	
Miscellaneous revenues	12,158	29,675	(17,517)	
Total Revenues	<u>2,497,720</u>	<u>2,797,426</u>	<u>(299,706)</u>	-10.71%
Operating expenses	<u>2,737,965</u>	<u>2,979,253</u>	<u>(241,288)</u>	-8.10%
Net operating income	(240,245)	(181,827)	(58,418)	32.13%
Other income	1,619	2,947	(1,328)	
Other expenses	<u>(241,293)</u>	<u>(233,974)</u>	<u>(7,319)</u>	
Subtotal other income/expenses	(239,674)	(231,027)	(8,647)	3.74%
Connection fees & construction	117,967	132,161	(14,194)	
Governmental construction grants	<u>757,935</u>	<u>111,477</u>	<u>646,458</u>	
Subtotal capital income	875,902	243,638	632,264	259.51%
Change in net assets	395,983	(169,216)	565,199	
Net Assets beginning of year	<u>15,616,244</u>	<u>15,785,460</u>	<u>(169,216)</u>	-1.07%
Net Assets end of year	\$ <u><u>16,012,227</u></u>	\$ <u><u>15,616,244</u></u>	\$ <u><u>395,983</u></u>	2.54%

As portrayed above and discussed earlier, the District is heavily reliant on revenues from sales of water and sewer services, which provides 99.5% and 98.9% of the District's operating revenues in fiscal years 2013 and 2012.

## **Financial Analysis of the District's Funds**

### **Proprietary funds**

Proprietary funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. The funds reported an ending fund balance of \$16,012,227. Of this year-end total, approximately \$298,394 is unreserved for operations, \$115,840 for Board designated projects, \$694,063 restricted for either debt service or construction and the balance is invested in fixed assets net of related debt of \$14,900,930.

The total ending fund balances of the proprietary fund shows an increase of \$395,983 from the prior year. This increase was due primarily to the increase from grants revenues.

### **Enterprise Fund Budgetary Highlights**

The Enterprise Fund budget complied with financial policies approved by the Board of Directors and maintained the core District services.

Budgetary comparison statements are included in the additional supplemental information section of the financial statements for the water and sewer funds and the District combined. These statements and schedules include cash flows designated to the reduction of debt and purchase and construction of assets. Actual results are shown for operations only.

### **Capital Asset and Long-Term Debt Administration**

Depreciation in the amount of \$625,932 was expensed on the statement of activities. During the year the District received grants and other connection fees for the construction of assets in the amounts of \$117,967 and \$757,935, respectively. Other financing of capital assets were provided by loans and operating funds. Net capital assets increased by \$397,305 during the year.

At the end of the year the District had long-term debt consisting of bond issues, notes payable, and interim construction loans. During the current year the District drew \$30,747 in loan funds. Repayment of \$131,170 in principal was made on other debt. Interest expense paid during the year on long-term debt was \$234,573, and \$6,720 was attributable to accrual and amortization adjustments.



### **Economic Environment and Next Year's Budgets and Rates**

The general outlook for the District for the next year is for some growth in economic activity as a reflection of positive signs in the national economy. We also expect a positive boost in economic activity as a spin-off of the continued growth of the Lexington economy. Jessamine County's close proximity enables us to capitalize on that activity.

The District's future goals are to provide drinking water to every household that wishes to have service, in the designated territory. We also intend to provide sewer service to areas of expansion with special attention to EPA problem zones that create a health hazard to our customers.

The District will continue expansion of their operations to better serve the Jessamine County citizens with a reliable water source. The District has contracted two projects in excess of two million dollars to replace deteriorated and leaking gray pipe that was installed in the early 70s. The construction of an elevated storage tank in the north end of Jessamine County is still needed and contemplated to begin construction in 2014.

The District is currently reviewing alternative sources of water and distribution methods to better serve the residents of Jessamine County, while maintaining affordable rates.

### **Contacting the Jessamine South Elkhorn Water District's Financial Management**

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations, and demonstrate the Jessamine South Elkhorn Water District's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the District at the following address:

Jessamine South Elkhorn Water District  
802 South Main Street  
Nicholasville, Kentucky 40356



Leta G. Mattingly, CPA  
Nancy J. Clark, CPA  
Veronica L. Roberts

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*Charles D. Fain, III, CPA*  
*(1955-2002)*  
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Members of  
Kentucky Society of  
Certified Public Accountants  
  
American Institute of  
Certified Public Accountants

### Independent Auditors' Report

The Board of Commissioners  
Jessamine South Elkhorn Water District  
Water and Sewer Divisions  
Nicholasville, Kentucky

We have audited the accompanying financial statements of the business-type activities, of the Jessamine South Elkhorn Water District (a special district government organization) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Management is also responsible for 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.

#### **Auditors' 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 of 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 opinion.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the District as of December 31, 2013, and the respective changes in its financial position and where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year 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 and combining and budgetary comparison information on pages 2 through 8 and pages 34 through 43 to 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.

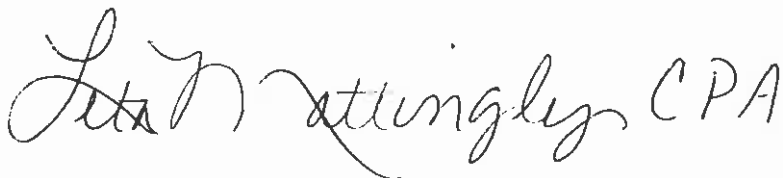
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jessamine South Elkhorn Water District's basic financial statements. The combining and individual non-major fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is also not a required part of the basic financial statements of the District.

The combining non-major fund financial statements and the schedule of expenditures of federal awards are 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 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 combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are 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 March 10, 2014, on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance

A handwritten signature in black ink that reads "Leta N. Mattingly CPA". The signature is fluid and cursive, with the letters "Leta" and "Mattingly" being more prominent than "N.". The "CPA" is written in a slightly different, more upright script.

Fain, Mattingly & Associates, P.S.C., CPAs  
Nicholasville, Kentucky

March 10, 2014

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**WATER AND SEWER DIVISIONS**  
Statement of Net Position  
December 31, 2013

	Water Division	Sewer Division	Total Business Activities
<u>Assets</u>			
Cash and current assets			
Cash and cash equivalents, unrestricted	\$ 343,422	\$ 94,917	\$ 438,339
Accounts receivable	102,012	5,256	107,268
Prepaid expenses	11,878		11,878
Due to (from) other funds	120,917	(120,917)	
Cash and cash equivalents, restricted	531,645	413,039	944,684
Total cash and current assets	<u>1,109,874</u>	<u>392,295</u>	<u>1,502,169</u>
<u>Capital Assets</u>			
Land, improvements and construction in process	621,872	1,124,313	1,746,185
Other capital assets, net of depreciation	11,627,252	7,346,086	18,973,338
Total capital assets	<u>12,249,124</u>	<u>8,470,399</u>	<u>20,719,523</u>
Deferred Inflows			
Unamortized bond costs	90,689	35,801	126,490
Total Assets	<u>\$ 13,449,687</u>	<u>\$ 8,898,495</u>	<u>\$ 22,348,182</u>
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	\$ 115,089	\$ 31,547	\$ 146,636
Payroll taxes payable	3,618		3,618
Customer deposits	9,145	17,900	27,045
Other current liabilities	22,841	101,399	124,240
Interest payable	39,073	50,260	89,333
Total current liabilities	<u>189,766</u>	<u>201,106</u>	<u>390,872</u>
<u>Current Portion of Debt</u>			
Current notes payable	21,841		21,841
Current bonds payable	51,500	18,400	69,900
Total current portion of long-term debt	<u>73,341</u>	<u>18,400</u>	<u>91,741</u>
<u>Long-term Debt</u>			
Notes payable	2,406,542		2,406,542
Bonds payable	1,971,000	1,475,800	3,446,800
Total long-term debt	<u>4,377,542</u>	<u>1,475,800</u>	<u>5,853,342</u>
Total Liabilities	<u>4,640,649</u>	<u>1,695,306</u>	<u>6,335,955</u>
<u>Net Position</u>			
Invested in capital assets, net of related debt	7,888,930	7,012,000	14,900,930
Restricted for:			
Debt service	78,476	131,847	210,323
Capital projects	106,294	281,192	387,486
Depreciation reserve	14,764		14,764
Operation and maintenance reserve	216,337		216,337
Unreserved, undesignated reported in			
Unrestricted net assets	388,397	(221,850)	166,547
Board designated net assets	115,840		115,840
Total Net Position	<u>\$ 8,809,038</u>	<u>\$ 7,203,189</u>	<u>\$ 16,012,227</u>

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**WATER AND SEWER DIVISIONS**  
Combined Statement of Revenues, Expenditures and Changes in Net Position  
For The Year Ended December 31, 2013

Functions/Programs	Expenses	Charges for Services	Operating Grants & Contributions Revenues	Capital Grants & Contributions Revenues	Net (Expense) Revenue
Business-type Activities:					
Water Division					
Operating expense	\$ 1,587,844	\$ 2,038,618	\$	\$ 69,733	\$ 520,507
Interest expense	194,803				(194,803)
Depreciation expense	418,927				(418,927)
Sewer Division					
Operating expenses	524,189	446,944		806,169	728,924
Interest expense	46,490				(46,490)
Depreciation expense	207,005				(207,005)
Total Business Activities	<u>\$ 2,979,258</u>	<u>\$ 2,485,562</u>	<u>\$ 0</u>	<u>\$ 875,902</u>	<u>382,206</u>
Revenues					
Investment income - water					1,487
Investment income - sewer					132
Other revenues					12,158
Total General Revenues					<u>13,777</u>
Excess of Revenues Over (Under)					
Change in Net Assets					395,983
Net position beginning of year - 1/1/13					<u>15,616,244</u>
Net position end of year - 12/31/13					<u>\$ 16,012,227</u>

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**WATER AND SEWER DIVISIONS**  
**COMBINED STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For The Year Ended December 31, 2013

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 2,568,660
Other operating receipts	12,158
Cash payments for personnel expenses	(425,467)
Cash payments for goods and services	<u>(1,634,132)</u>
Net cash provided by (used in) operating activities	<u>521,219</u>

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES:**

Net customer deposits	117,967
Grants received	757,935
Borrowings under long-term obligations	30,747
Purchases of capital assets	(1,052,810)
Principal paid on long-term obligations	(131,170)
Interest paid on long-term obligations	<u>(244,792)</u>
Net cash provided by (used in) capital and related financing activities	<u>(522,123)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Income from investments	<u>1,619</u>
Net cash provided by (used in) investing activities	<u>1,619</u>

Net change in cash and cash equivalents	715
Cash and equivalents, beginning of year	<u>1,382,308</u>
Cash and equivalents, end of year	<u>\$ 1,383,023</u>

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**WATER AND SEWER DIVISIONS**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**PROPRIETARY FUNDS**  
For the Year Ended December 31, 2013

	<u>Total</u>
Reconciliation of cash and cash equivalents to the proprietary funds statement of net assets:	
Cash and cash equivalents-unrestricted	\$ 438,339
Cash and cash equivalents-restricted	<u>944,684</u>
Total cash and cash equivalents per the proprietary funds statement of net assets	<u><u>1,383,023</u></u>

Reconciliation of income (loss) from operations to net cash flows from operating activities:	
Income (loss) from operations	\$ (240,245)
Depreciation expense	625,932
Bad debt write-offs	(7,895)
(Increase) decrease in operating assets:	
Accounts receivable	83,098
Other current assets	226
Increase (decrease) in operating liabilities:	
Accounts payable and other accrued expenses	77,783
Meter deposits and other liabilities	<u>(17,680)</u>
Net cash provided by (used in) operating activities	<u><u>\$ 521,219</u></u>

Non-cash investing, capital, and financing activities:	
Prepayments by developers -released	<u><u>\$ 29,573</u></u>

See accompanying notes to financial statements.



**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies for the Jessamine South Elkhorn Water District, Water and Sewer Divisions (the District) is presented to assist in understanding the District's financial statements. The financial statements and the related notes are representations of the District's management who is responsible for their integrity and objectivity. The accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

**Financial Reporting Entity**

The District, consisting of Jessamine South Elkhorn Water District, Water Divisions, and Jessamine South Elkhorn Water District Sewer Division, has been consolidated for reporting purposes. The entities share the same board of commissioners, central offices and employees.

The District is a special district formed for the express purpose of providing water service within the confines of Jessamine County, Kentucky. The Jessamine County Fiscal Court appoints an independent board of commissioners to govern the district. The District operates as an independent entity in that it is legally separate and holds corporate powers of organization. The Fiscal Court does not impose its will upon the district. The District does not impose financial benefit or burden upon the Fiscal Court.

**Basis of Presentation**

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, including Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis, which mandates the new reporting model implemented by the District. The following is a summary of significant accounting policies.

**Basis of Accounting**

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Furthermore, both long term and current assets and liabilities are included in the statement of net assets.

The District uses a proprietary enterprise fund to account for the activities of the District which are similar to those found in private business enterprises. The funds were established to account for the acquisition, operation, and maintenance of the District's facilities and services which are predominately self-supported by user charges. Where the District has a periodic determination of net income, it is appropriate to use the funds for capital maintenance, public policy, management control accountability, or other purposes.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “which” transactions are recorded within the financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The District uses the flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current on non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets. Net assets are segregated into investment in capital assets, restricted, and unrestricted. The operating statement presents increases (e.g. revenues and expenses) in net assets. The District’s financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

**Cash and Investments**

Kentucky Revised Statute 66.480 authorizes the District to invest in obligations of the U.S. Treasury, in bonds or certificates of indebtedness of this state and of its agencies; savings and loan associations insured by an agency of the government of the United States up to the amount so insured; interest bearing deposits in state or national banks chartered in Kentucky and insured by an agency of the United States up to the amount so insured, and in larger amounts, providing such bank pledges as security obligations equal to uninsured amounts.

**Cash and Cash Equivalents**

The District considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the proprietary funds statement of cash flows. The District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Use of Estimates**

The 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.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets and Long Term Obligations**

Property, Plant and Equipment of the District are stated at cost and depreciated over their estimated useful lives using the straight line method. Furniture and equipment is depreciated over the useful life of 5-10 years. Capital assets and the depreciation expense on capital assets purchased before the addition of the sewer division are presented as water division assets. Capital assets that are added since the addition of the sewer division have been allocated to both divisions based on current number of customers served at the time of the addition.

Interest costs are capitalized when incurred by proprietary fund on debt where the proceeds are used to finance the construction of fixed assets.

Long-term Obligations - In proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Bond Discount/Premiums and Issuance Cost**

In the government-wide financial statements and proprietary fund types in the fund financial statements, bond discount/premiums and issuance costs are capitalized in the year of issue and amortized over the life of the bonds using the straight-line method. In the government-wide financial statements, bond discounts and issuance costs, along with deferred amounts on refunding, are presented as part of deferred outflows and bond premiums are presented as part of deferred inflows.

**Inventories**

The District has not historically inventoried unsold water, nor accounted for unbilled water or sewer usage as of the year end. Similarly, the District does not accrue costs for water purchases unbilled to it as of the year end. The District does not inventory supplies or similar items unless such items are determined to be significant.

**Equity Classifications**

Equity is classified as net position and is displayed (if applicable) in the following three components:

Invested in capital assets, net of related debt- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of notes or other borrowings that are attributable to the acquisitions, construction, or improvements of those assets, adjusted for deferred inflows and outflows related to debt.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Restricted Net Position-Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) laws through constitutional provisions or enabling legislation.

Unrestricted Net Position- All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Budget**

State law requires an annual budget for local supporting governments. The budget presentation for the District is not a required statement, but is presented the statement under other supplemental information.

**Income Taxes**

Per state law KRS 154.50-343, title to all property acquired by the District shall vest in the District and shall be exempt from taxations to the same extent as other property used for public purposes. All revenues collected by the District shall also be exempt from taxation.

**Revenues and Expenses/Expenditures**

The primary sources of the District’s revenues are from operating revenues and expenses for proprietary (enterprise) funds that result from providing services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities.

The proprietary funds report expenses relating to the use of economic resources. Proprietary fund expenses are classified by function in the proprietary fund statement of revenues, expenses, and changes in net assets, with detail by natural or object classification provided as supplemental information.

Allocation of administrative and other overhead costs are prorated to the water and sewer divisions based on the number of customers served by each division.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Subsequent Events**

Events or transactions that affect financial statement amounts or disclosures sometimes occur subsequent to period end, but before the financial statements are issued. Subsequent events, if applicable, may impact the current financial statements or may reveal conditions that did not exist at the financial statement date. The search for subsequent events is covered through the date of the auditors' report.

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS**

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include:

Depositories must be FDIC insured banking institutions,  
Depositories must fully insure or collateralize all demand and time deposits and repurchase agreements,  
Securities collateralizing repurchase agreements are to be held by independent third parties.

The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporations (FDIC).

**Bank Deposits**

Deposits (cash and certificates of deposits) are carried at cost, which approximates fair value. At December 31, 2013, the carrying amounts of the District's deposits were \$1,383,023 and the bank balances and cash on hand were \$1,524,256 and \$60, respectively. The District's cash deposits are classified as follows:

Category 1. Insured \$1,167,567.

Category 2. Collateralized with securities held by the pledging financial institution - None.

Category 3. Uncollateralized consists of uncovered balances and cash on hand in the amounts of \$356,689 and \$60 respectively.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS (Continued)**

	<u>Cash and Cash Equivalents</u>	<u>Board Restricted Cash and Cash Equivalents</u>	<u>Restricted Cash and Cash Equivalents</u>	<u>Total</u>
Revenue Fund	\$ 174,871	\$ 26,963	\$ 115,840	\$ 317,674
Operation and Maintenance Fund	30,441			30,441
Bond & Interest Fund- Water			78,476	78,476
Bond & Interest Fund- Sewer			131,847	131,847
Debt Service Reserve Account			189,373	189,373
Depreciation Fund			14,699	14,699
Construction Fund-W	138,110		106,294	244,404
Construction Fund-S			281,192	281,192
Sewer accounts	<u>94,917</u>	<u>          </u>	<u>          </u>	<u>94,917</u>
Totals	<u>\$ 438,339</u>	<u>\$ 26,963</u>	<u>\$ 917,721</u>	<u>\$ 1,383,023</u>

**Investments**

The District has no monies invested in accounts other than bank checking and savings accounts.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 3 – RECEIVABLES**

Accounts receivable from customers and taxpayers are less an allowance for uncollectible balances. Additions to the allowance are charged to operations in the period in which the receivable becomes impaired. The District provides an allowance based on historical collection experience and a review of the current status of existing receivables. Usually no allowance for utility services has been required, but during 2013 an allowance of \$625 is included. The sewer expansion has created receivables related to reimbursements due from developers, some of which appear uncollectible. Estimated allowances of \$119,338 have been recorded for these receivables and during the current year. During 2013, the water fund wrote off receivables \$4,152 and the sewer fund \$13,178.

**NOTE 4 – CAPITAL ASSETS**

The Utility plant is stated at original cost and depreciated over its estimated useful life using the straight-line method. Expenditures for maintenance and repairs are expensed when incurred. Renewals and betterments are capitalized. The range of useful lives used in computing depreciation is as follows:

- Transmission and distribution lines and related components and structures-40years
- Meters and Services - 40 years
- Office furnishings - 1 to10 years
- Office equipment - 5 years
- Vehicles - 6 years

For the year ending December 31, 2013, total depreciation expense was \$418,927 for the water division and \$207,005 for the sewer division. The Unserved II projects placed in service two projects totaling 162,818, and reclassified those from non-depreciable work in process to depreciable assets. Fully depreciated lines were replaced by these projects and were removed from service, valued at \$27,120. There were no completed construction projects for the sewer division and work in process increased by \$649,883. The following table summarized capital asset activity during the year ended December 31, 2013 is as follows:

Grants received during the year for water construction projects were \$40,452 and for sewer construction projects were \$717,483.

There was no capitalized interest for the water or sewer divisions during the current year.

During the current year there were no conveyed assets by developers.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

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

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Totals</u>
<b>Non-Depreciable</b>				
Construction in process water	\$ 499,802	\$ 284,888	\$ 162,818	\$ 621,872
Construction in process sewer	<u>474,429</u>	<u>649,884</u>	<u>                    </u>	<u>1,124,313</u>
Total non-depreciable	<u>974,231</u>	<u>934,772</u>	<u>162,818</u>	<u>1,746,185</u>
<b>Depreciable</b>				
Utility plant/distribution system	16,151,199	196,978	27,120	16,321,057
Sewer collection	8,139,815			8,139,815
Building	450,000			450,000
Operating equipment/furn	11,634			11,634
Transportation water	18,047			18,047
Transportation sewer	17,032			17,032
Equipment sewer		54,305		54,305
Communication water	50,121			50,121
Communication sewer	<u>1,031</u>			<u>1,031</u>
	<u>24,838,879</u>	<u>251,283</u>	<u>27,120</u>	<u>25,063,042</u>
Accumulated Depreciation-Water	(4,831,800)	(418,927)	(27,120)	(5,223,607)
Accumulated Depreciation-Sewer	<u>(659,092)</u>	<u>(207,005)</u>	<u>                    </u>	<u>(866,097)</u>
Total depreciation	<u>(5,490,892)</u>	<u>(625,932)</u>	<u>(27,120)</u>	<u>(6,089,704)</u>
Total depreciable assets net of depreciation	<u>19,347,987</u>	<u>(374,649)</u>	<u>0</u>	<u>18,973,338</u>
Totals	\$ <u>20,322,218</u>	\$ <u>560,123</u>	\$ <u>162,818</u>	\$ <u>20,719,523</u>

The District had multiple construction projects which were in process at the beginning and/or the end of the year. A brief recap of the projects is summarized as follows:



**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**WATER AND SEWER DIVISIONS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013**

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

1. The North Jessamine Sewer Project: The purpose of this project is to acquire and construct certain facilities and improvements to the waterworks and sewer system in northern Jessamine County. This project is anticipated to cost \$6,064,000 and is being financed with Grants from the EPA (\$2,850,700), HUD (\$1,000,000), RD Grant (\$941,300) and RD Loan (\$1,272,000). Grant monies of \$717,483 were received in 2013. Total costs to date are \$5,561,039 for the completed portions of the project and work in process consists of \$1,124,313. Final phases are expected to be completed in the upcoming year.
2. Unserved II Rural Jessamine Water Project: The purpose of this project is to provide potable drinking water to the citizens of Jessamine County. The project is financed by the balance of Unserved I grants from the KIA (\$1,600,000) and Keene Project grants. Grant monies of \$40,452 were received in 2013. Costs incurred during 2013 were \$284,888, bringing the project costs for both Unserved I and Unserved II to \$2,776,314. Completed portions of the projects totaling \$2,154,443 have been removed from work in process and are included in previous and current additions to the depreciable assets. Portions of the projects still under construction totaling \$621,872 are included in work in process.

**NOTE 5 – PAYABLES**

Accounts payables consist of payments due to vendors for operations and maintenance of the water and sewer division, construction costs and various taxes related to payroll and sales. A breakdown of payables follows:

Accounts payable water	\$ 115,089
Accounts payable sewer	31,547
Sales tax and other payables	<u>3,618</u>
Total current payables	<u>\$ 150,254</u>

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 6 – LONG-TERM DEBT**

**Notes payable**

- In 1992, the District received a loan from the Kentucky Infrastructure Authority Fund C91-01, in the amount of \$1,924,874. The proceeds of this loan went to finance the infrastructure improvement to the water distribution system. The note represents the District's portion of the of the Kentucky Infrastructure Authority Governmental Agencies Program Revenue Refunding Bonds series K issue C91-01 and currently bears interest at the rate of 3.16%. The District capitalized costs associated with an initial refinancing in the amount of \$57,122 in 2003 and an additional \$18,522 from the succeeding refinancing in 2004 which is being amortized over the remaining life of the issue. The issue matured in June 2013 and bears a weighted average interest rate over the term of the note of 4.29%. During 2013 the final payment of \$60,000 in principal was paid.
  
- In 2002, the District received a loan from a local bank with a principal amount of \$400,000. The proceeds were used to complete funding for a \$3,500,000 project in Southeast Jessamine County. In May 2013, the note was refinanced at 5.00% for \$306,642 with 20 quarterly payments of \$6,830 and a balloon payment of \$279,431 in May 2018. The balance on December 31, 2013 is \$303,904.
  
- In 2008, the District borrowed \$450,000 to purchase a building for the District's operations. The note is secured by the District's office facilities and bears an annual rate of interest of 5.50%. The note calls for monthly payments of \$2,585 and matures with a balloon payment due in April 2018 of \$375,851. The balance on December 31, 2013 is \$410,611.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 6 – LONG-TERM DEBT (Continued)**

- In June 2007, the District received a loan from Kentucky Infrastructure Authority Fund F07-02 not to exceed \$1,750,000. The proceeds are being used to construct the Keene system water main and hydraulic reinforcement loop lines. During 2010, the KIA approved use of the remaining funds for the Unserved II project. The loan interest rate is 3.00% with semi-annual payments of interest commencing with the first draw. Principal is to be repaid in semi-annual payments over a term of 20 years beginning with the initial operations. During the year loan payments of \$30,175 were made and loan proceeds drawn were \$30,747. Per terms of the loan until the loan is closed only interest payments are required. The loan's outstanding principal balance as of December 31, 2013 totals \$1,713,868 and will not be included in the repayment schedule below until after the final closing.

Payments for the closed loans, assuming loans with balloon payments are refinanced, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 21,842	\$ 34,837	\$ 56,679
2015	22,941	33,738	56,679
2016	24,095	32,584	56,679
2017	25,308	31,371	56,679
2018	26,582	30,097	56,679
2019-2023	154,372	129,024	283,396
2024-2028	197,326	86,069	283,395
2029-2033	139,654	40,578	180,232
2034-2035	102,395	10,365	112,760
Totals	\$ <u>714,515</u>	\$ <u>428,663</u>	\$ <u>1,143,178</u>

**Bonds**

- In 1999, the District issued revenue bonds Series 2000B in the amount of \$400,000 the proceeds of which were to finance the expansion of the water works system, and to be secured by that system. Payments of interest, at a 5.25% annual rate, are due annually on January 1<sup>st</sup> and the bonds mature serially each January 1 through January 2039. The balance on December 31, 2013 is \$342,500.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 6 – LONG-TERM DEBT (Continued)**

- In March 2010, the District issued Series 2008A revenue bonds for \$750,000, Series 2008B revenue bonds for \$522,000, and Series 2009A for \$240,000. Proceeds of the bonds were used to retire interim financing from Kentucky Rural Water Association (KRWA) for the North Jessamine sewer project. The balance on December 31, 2013 is \$1,494,200.
- In April 2012, the District issued revenue bonds, Series 2012C (the “2012C Bonds”) in the amount of \$1,710,000. The proceeds were used to advance refund and defease the outstanding Utilities Revenue Bonds, Series 2000B and to pay related costs of issuance. The advance refunding resulted in a difference between the funds required for refunding and the net carrying amount of the old debt. This difference (\$39,591), reported in the accompanying financial statements as a reduction of long-term obligations, is being deferred and amortized as a component of interest expense over the remaining life of the old debt. The balance on December 31, 2013 is \$1,680,000.
- The economic gain from the advance refunding is approximately \$396,083, and the difference between the cash flow requirements necessary to service the old debt and the cash flow requirements necessary to service the new debt along with other payments necessary to complete the advance refunding is outlined below:

Gross Debt Service Comparison

Year Ended June 30	Cash Flow Requirements New	Cash Flow Requirements Old	Savings
2012	\$	\$	\$
2013	105,425	115,441	10,016
2014	104,693	115,866	11,173
2015	103,726	115,213	11,487
2016	102,758	115,480	12,722
2017	514,419	577,738	63,319
2018	512,546	575,123	62,577
2019	501,400	573,132	71,732
2020	499,802	571,646	71,844
2021	303,850	341,462	37,612
Total	<u>2,748,619</u>	<u>3,144,702</u>	<u>396,083</u>

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 6 – LONG-TERM DEBT (Continued)**

At December 31, 2013, the future debt service requirements of the revenue bonds for the water and sewer divisions are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 69,900	\$ 137,586	\$ 207,486
2015	71,000	135,560	206,560
2016	72,100	133,482	205,582
2017	73,200	131,362	204,562
2018	79,300	129,190	208,490
2019-2023	426,200	602,217	1,028,417
2024-2028	505,400	518,387	1,023,787
2029-2033	609,500	407,939	1,017,439
2034-2038	751,700	271,868	1,023,568
2039-2043	388,000	134,163	522,163
2044-2048	322,800	70,703	393,503
2049-2050	147,600	9,120	156,720
Totals	\$ <u>3,516,700</u>	\$ <u>2,681,577</u>	\$ <u>6,198,277</u>

Debt Covenants

The Series 2000, 2008 and 2009 bond ordinances established the following accounts, as well as certain requirements as follows:

1. Utilities Revenue Fund – The District agrees to deposit, therein promptly as received from time to time, all cash revenues of the utilities system, and to disburse there from in the manner and order of priorities as described in the following paragraphs.
2. Revenue Bond Fund Principal and Interest Sinking Fund-Sewer Fund – The District deposits each month an amount equal to one twelfth (1/6) of the amount of interest becoming due on all bonds outstanding on the next ensuing semi-annual interest payment date, plus one twelfth (1/12) of the amount of principal of all bonds outstanding which are maturing on the next ensuing October 1<sup>st</sup>. As of December 31, 2013, the balance in this account (\$115,850) exceeds what is required.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 6 – LONG-TERM DEBT (Continued)**

3. Debt Service Reserve Account –The 2000 Bond Agreement calls for monthly reserve accumulations of \$1,190 and the 2008/9 Bond Agreement calls for monthly reserve accumulations of \$995. The District is to maintain a balance equal to the lesser of (1) the maximum amount of principal and interest which will become due and payable on all bonds in any period of twelve months ending January 1, (2) 125% of the average annual amount of principal and interest due on all bonds, or (3) 10% of the proceeds of the bonds. As of December 31, 2013, the accounts that comprise the Debt Service Reserve Account-Water (\$78,476) and Debt Service Reserve Account-Sewer (\$131,847) exceed what is required.
4. Operation and Maintenance Fund – The District shall deposit an amount equal to the estimated current expense of operating, maintaining, and insuring the system for the next ensuing month. The amounts shall be determined, pursuant to the annual budget adopted by the District Board, are to be made to meet the reasonable and necessary expenses. As of December 31, 2013, the total balance of the funds that comprise the Operation and Maintenance Fund exceeds what is required.
5. Depreciation Fund – The District shall deposit amounts from the Revenue Fund after provisions have first been made for the prescribed deposits into the Revenue Bond Fund principal and interest accounts and the Operation and Maintenance Fund, until reaching a balance of \$12,000 to comply with covenants of the bonds issued. This fund is for the purpose of paying unusual or extraordinary maintenance repairs, renewals and replacement. \$14,699 has been accumulated as of December 31, 2013, and exceeds the amount required.
6. Construction Fund-This fund is to be used to construct additions, extensions, and improvements other than those of the Depreciation Fund. Bond covenants require funds received during bond sales for construction purposes be segregated and spent for that purpose only. The District holds no restricted funds from bond sales as of December 31, 2013.
7. Sewer accounts-These accounts were opened subsequent to the Bond Agreements and are not restricted by formal Ordinance.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 6 – LONG-TERM DEBT (Continued)**

Activity in the long-term obligations of the District during the year ended December 31, 2013 is summarized as follows:

	Balance 12/31/2012	Increases	Decreases	Balance 12/31/2013	Due in one year
KIA Refunding KC91-01	\$ 60,000	\$ -	\$ 60,000	\$ -	\$ -
Farmers Bank Note	312,394	-	8,490	303,904	12,564
Farmers Office Bldg	418,063	-	7,452	410,611	9,277
KIA Interim	1,715,296	30,747	32,175	1,713,868	-
<b>Total loans</b>	<b>2,505,753</b>	<b>30,747</b>	<b>108,117</b>	<b>2,428,383</b>	<b>21,841</b>
Revenue bonds:					
Series 2000	348,500		6,000	342,500	6,500
Series 2008/2009	1,512,000		17,800	1,494,200	18,400
Series 2012	1,710,000		30,000	1,680,000	45,000
<b>Total revenue bonds</b>	<b>3,570,500</b>	<b>-</b>	<b>53,800</b>	<b>3,516,700</b>	<b>69,900</b>
<b>Totals</b>	<b>\$ 6,076,253</b>	<b>\$ 30,747</b>	<b>\$ 161,917</b>	<b>\$ 5,945,083</b>	<b>\$ 91,741</b>

**NOTE 7 – COMPENSATION**

Employees for the District are either salary or hourly workers. Some are full-time and some work part-time. The Commissioners on the board receive an annual payment to offset the expenses of serving on the board that is included in payroll. The District offers employees insurance coverage and the option to participate in a retirement program. The Commissioners are not covered by employee health or retirement programs.

	Water	Sewer	Total
Compensation Staff	\$ 209,302	\$ 104,090	\$ 313,392
Commissioners	24,779	5,421	30,200
Payroll taxes	22,019	4,936	26,955
Health insurance	32,899	7,439	40,338
Pension benefits	11,941	2,641	14,582
<b>Totals</b>	<b>\$ 300,940</b>	<b>\$ 124,527</b>	<b>\$ 425,467</b>

**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 8 – ACCRUED COMPENSATION**

It is the District's policy to permit employees to accumulate earned but unused vacation leave and sick pay benefits. The policy of the District is to not accrue the cost of vacation or sick leave as unpaid compensated absences because they are not materially significant.

Vacation days are accrued at 5 days per year for the first year, 10 days up to five years and 15 days from year six and beyond. Unused days may be carried over, but shall not exceed twenty days entering into a new calendar year.

Sick days are earned by employees as one day for every month of employment and may accumulate to a total of no more than seventy-five days.

**NOTE 9 – INSURANCE AND RISK MANAGEMENT**

The District is exposed to various forms of loss associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility and torts, injuries to employees, natural disasters, etc. Each of these risk areas is covered through the purchase of a commercial insurance package. The District has purchased certain policies which are rated including workers' compensation insurance. Premiums for these policies are based upon the District's experience to date.

**NOTE 10 – RESTRICTED AND BOARD RESERVED NET ASSETS**

Certain proprietary funds are restricted for construction funded through long-term debt, permits and connections fees and grant revenues. Net assets restricted for debt service include the excess of assets over certain liabilities restricted for the debt service on revenue bonds. Restricted assets are also reported in various funds for cash deposited in bank accounts legally restricted for specified uses such as the payment of debt service or retainage on capital projects. The restricted assets in the accompanying financial statements are restricted as to use by ordinance, external parties or by board reserve. The following schedule sets forth those net assets reserved and restricted as of December 31, 2013.



**JESSAMINE SOUTH ELKHORN WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2013**

**NOTE 10 – RESTRICTED AND BOARD RESERVED NET ASSETS (Continued)**

	<u>Board Reserved</u>	<u>Restricted Amount</u>	<u>Total Balance</u>
Customer deposits	\$ 26,963	\$	\$ 26,963
Depreciation Fund		14,699	14,699
Reserve Revenue Fund		115,840	115,840
Reserve Fund		189,373	189,373
Debt service-Water		78,476	78,476
Debt service-Sewer		131,847	131,847
Construction accounts-Water		106,294	106,294
Construction accounts-Sewer		281,192	281,192
	<u>          </u>	<u>          </u>	<u>          </u>
Totals	\$ <u>26,963</u>	\$ <u>917,721</u>	\$ <u>944,684</u>

**NOTE 10 – SUBSEQUENT EVENTS**

The District continues to resolve a dispute with developers regarding construction projects and whether the District is responsible for certain costs and a dispute over the placement and need of a water tower. At this time, it is believed that the District has lived up to their contracts and responsibilities and the issues are without merit. Efforts are being made to resolve both issues with mediation. It is not possible at this time to estimate any costs for which the District may be liable.

## **OTHER SUPPLEMENTAL INFORMATION**

JESSAMINE SOUTH ELKHORN WATER DISTRICT  
COMBINING BALANCE SHEET  
PROPRIETARY FUNDS  
December 31, 2013

ASSETS	Revenue Fund	Operations and Maintenance Fund	Depreciation Fund	Reserve Fund	Construction Fund	Sewer Fund	Totals
<u>Current Assets</u>							
Cash and cash equivalents, unrestricted	\$ 174,871	\$ 30,441	\$ -	\$ -	\$ 138,110	\$ 94,917	\$ 438,339
Receivables	94,180	7,832	-	-	-	5,256	107,268
Intra-fund advances	(12,348)	133,285	-	-	-	(120,917)	-
Prepaid expenses and other receivables	40	11,773	65	-	-	-	11,878
Total Current Assets	256,743	183,311	65	-	138,110	(20,744)	557,485
Cash and cash equivalents, restricted	142,803		14,699	189,373	184,770	413,039	944,684
<u>Utility Plant</u>							
Non-depreciable capital assets	-	285,147	-	-	336,725	1,124,313	1,746,185
Construction in process	-	-	-	-	-	-	-
<u>Depreciable capital assets</u>							
Pumping Plant and Distribution System	-	-	-	-	16,850,859	8,212,183	25,063,042
Less accumulated depreciation	-	-	-	-	(5,223,607)	(866,097)	(6,089,704)
	-	285,147	-	-	11,963,977	8,470,399	20,719,523
Deferred Outflows-Unamortized bond costs	-	-	-	-	90,689	35,801	126,490
Total Assets	\$ 399,546	\$ 468,458	\$ 14,764	\$ 189,373	\$ 12,377,546	\$ 8,898,495	\$ 22,348,182

See accompanying notes to financial statements

JESSAMINE SOUTH ELKHORN WATER DISTRICT  
COMBINING BALANCE SHEET  
PROPRIETARY FUNDS (Continued)  
December 31, 2013

	Revenue Fund	Operations and Maintenance Fund	Depreciation Fund	Reserve Fund	Construction Fund	Sewer Fund	Totals
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities							
Accounts payable	\$ -	\$ 115,089	\$ -	\$ -	\$ -	\$ 31,547	\$ 146,636
Sales, utilities and payroll taxes payable	3,618	-	-	-	-	-	3,618
Customer deposits	9,145	-	-	-	-	17,900	27,045
Other current liabilities	-	22,841	-	-	-	101,399	124,240
Accrued interest	-	-	-	-	39,073	50,260	89,333
Current portion of long-term debt	-	-	-	-	73,341	18,400	91,741
	<u>12,763</u>	<u>137,930</u>	<u>-</u>	<u>-</u>	<u>112,414</u>	<u>219,506</u>	<u>482,613</u>
Long-Term Debt							
Notes payable					2,406,542		2,406,542
Revenue bonds					1,971,000	1,475,800	3,446,800
Total Long-Term Debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,377,542</u>	<u>1,475,800</u>	<u>5,853,342</u>
Total Liabilities	<u>12,763</u>	<u>137,930</u>	<u>-</u>	<u>-</u>	<u>4,489,956</u>	<u>1,695,306</u>	<u>6,335,955</u>
Fund balances.							
Invested in capital assets, net of related debt		285,147			7,603,783	7,012,000	14,900,930
Restricted for							
Debt service							
Construction fund					78,476	131,847	210,323
Depreciation reserve			14,764		106,294	281,192	387,486
Operation and maintenance reserve	26,964			189,373			14,764
Unreserved, undesignated reported in							
Unrestricted	243,979	45,381			99,037	(221,850)	166,547
Board designated	115,840						115,840
Total Fund Balances	<u>386,783</u>	<u>330,528</u>	<u>14,764</u>	<u>189,373</u>	<u>7,887,590</u>	<u>7,203,189</u>	<u>16,012,227</u>
Total Liabilities and Fund Balances	<u>\$ 399,546</u>	<u>\$ 468,458</u>	<u>\$ 14,764</u>	<u>\$ 189,373</u>	<u>\$ 12,377,546</u>	<u>\$ 8,898,495</u>	<u>\$ 22,348,182</u>

See accompanying notes to financial statements

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
For the Year Ended December 31, 2013

	REVENUES						EXPENDITURES				Totals
	Revenue Fund	Operations and Maintenance Fund	Depreciation Fund	Reserve Fund	Construction Fund	Sewer Fund	Water purchased and sewer usage	Engineering	Other professional services	Legal and accounting	
Water sales	\$ 1,989,624	\$ 283	\$ -	\$ -	\$ -	\$ -	-	1,071,538	-	-	1,319,796
Sewer fees	-	-	-	-	-	446,944	-	17,464	-	-	63,976
Penalties	20,985	-	-	-	-	11,357	-	5,608	-	-	6,295
Service charges	7,690	-	-	-	-	8,679	-	18,377	-	-	37,317
Miscellaneous revenues	33	12,125	-	-	-	-	-	24,779	-	-	30,200
							-	68,912	-	-	106,111
							-	11,931	-	-	15,066
							-	13,297	-	-	18,813
							-	41,519	-	40	52,015
							-	197,371	-	-	298,326
							-	66,859	-	-	81,875
							-	24,848	-	-	30,518
							-	19,884	-	-	34,395
	4,152	-	-	-	-	-	-	-	-	-	17,330
Total expenditures	5,417	1,582,387	-	-	40	524,189					2,112,033
Excess (deficiency) of revenues over expenditures	2,012,915	(1,569,979)	-	-	(40)	(57,209)					385,687
Depreciation expense					418,927	207,005					625,932
Net change in net assets from operations	2,012,915	(1,569,979)	-	-	(418,967)	(264,214)					(240,245)

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Continued)**  
For the Year Ended December 31, 2013

	Revenue Fund	Operations and Maintenance Fund	Depreciation Fund	Reserve Fund	Construction Fund	Sewer Fund	Totals
<b>OTHER FINANCING SOURCES(USES).</b>							
Interfund transfers in (out)	\$ (2,050,257)	\$ 1,797,152	\$ -	\$ 13,990	\$ 217,934	\$ 21,181	-
Interest income	613	63	98	271	442	132	1,619
Interest expense	(1,739)	-	-	-	(193,064)	(46,490)	(241,293)
Connection fees	-	431	-	-	28,850	88,686	117,967
Capital contributions from grants	-	-	-	-	40,452	717,483	757,935
<b>Total Other Financings Sources (Uses)</b>	<b>(2,051,383)</b>	<b>1,797,646</b>	<b>98</b>	<b>14,261</b>	<b>94,614</b>	<b>780,992</b>	<b>636,228</b>
<b>Change in net assets</b>	<b>(38,468)</b>	<b>227,667</b>	<b>98</b>	<b>14,261</b>	<b>(324,353)</b>	<b>516,778</b>	<b>395,983</b>
<b>Net assets, beginning of year</b>	<b>425,251</b>	<b>102,861</b>	<b>14,666</b>	<b>175,112</b>	<b>8,211,943</b>	<b>6,686,411</b>	<b>15,616,244</b>
<b>Net assets, end of year</b>	<b>\$ 386,783</b>	<b>\$ 330,528</b>	<b>\$ 14,764</b>	<b>\$ 189,373</b>	<b>\$ 7,887,590</b>	<b>\$ 7,203,189</b>	<b>\$ 16,012,227</b>

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**WATER AND SEWER DIVISIONS COMBINED**  
**SCHEDULE OF REVENUES AND EXPENSES -**  
**BUDGET AND ACTUAL**  
For the Year Ended December 31, 2013

	Amended Budget	Actual	Over (Under) Budget
<b>OPERATING REVENUES:</b>			
Water, and sewer service charges:			
Water	\$ 2,479,132	\$ 1,989,907	\$ (489,225)
Sewer	481,597	446,944	(34,653)
Total Water, and Sewer Service Charges	2,960,729	2,436,851	(523,878)
Penalties and service charges	51,719	48,711	(3,008)
Other	746	12,158	11,412
 Total Operating Revenues	 3,013,194	 2,497,720	 (515,474)
 <b>OPERATING EXPENSES:</b>			
<b>Costs of sales</b>			
Water purchased	1,372,528	1,071,538	(300,990)
Sewer usage	230,959	248,258	17,299
Total Cost of Sales	1,603,487	1,319,796	(283,691)
 <b>Operations and Maintenance</b>			
Compensation			
Gross wages	286,016	298,326	12,310
Meter reading	14,633	15,066	433
Commissioner salaries	26,000	30,200	4,200
Payroll taxes	24,438	26,955	2,517
Employee insurance	43,073	40,338	(2,735)
Retirement expenses	15,034	14,582	(452)
Total Compensation	409,194	425,467	16,273
 Contractual Services			
Engineering water	53,817	17,464	(36,353)
Engineering sewer	76,954	46,512	(30,442)
Accounting	11,128	9,645	(1,483)
Legal water	45,090	10,482	(34,608)
Legal sewer	22,159	17,190	(4,969)
Contractual other expenses	5,626	14,190	8,564
Total Contractual Services	214,774	115,483	(99,291)

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**WATER AND SEWER DIVISIONS COMBINED**  
**SCHEDULE OF REVENUES AND EXPENSES -**  
**BUDGET AND ACTUAL (Continued)**  
For the Year Ended December 31, 2013

	Amended Budget	Actual	Over (Under) Budget
Materials and supplies			
Office expense water	\$ 37,613	\$ 34,926	\$ (2,687)
Office expense sewer	11,465	9,191	(2,274)
Other expenses	8,459	7,898	(561)
Repairs and maintenance water	75,050	68,912	(6,138)
Repairs and maintenance sewer	40,009	37,199	(2,810)
Travel and vehicle	19,827	18,813	(1,014)
Total Materials and Supplies	<u>192,423</u>	<u>176,939</u>	<u>(15,484)</u>
Utilities, Insurance and Other			
Utilities	28,327	29,308	981
Communications	4,735	5,087	352
Insurance water	19,281	24,848	5,567
Insurance sewer	5,070	5,670	600
Bad debt	17,453	17,330	(123)
Total Utilities, Insurance and Other	<u>74,866</u>	<u>82,243</u>	<u>7,377</u>
Depreciation Expense	<u>624,236</u>	<u>625,932</u>	<u>1,696</u>
Total Operating Expenses	<u>3,118,980</u>	<u>2,745,860</u>	<u>(373,120)</u>
Total Operating Revenues Less Expenses	<u>(105,786)</u>	<u>(248,140)</u>	<u>(142,354)</u>
NON-OPERATING REVENUES (EXPENSES):			
Water and sewer tap fees	113,907	117,967	4,060
Capital contributions from grants	0	757,935	757,935
Income from investments	3,846	1,619	(2,227)
Interest & amortization expense	(150,686)	(241,293)	(90,607)
Total non-operating revenues(expenses)	<u>(32,933)</u>	<u>636,228</u>	<u>669,161</u>
CHANGE IN NET ASSETS	<u>(138,719)</u>	\$ <u>388,088</u>	\$ <u>526,807</u>
Other budgeted cash flows			
Capital construction	(60,000)		
Meters and other capital purchases	(21,439)		
Debt service principal	<u>(103,905)</u>		
	<u>(185,344)</u>		
Budgeted increase in net assets	\$ <u>(324,063)</u>		

See accompanying notes to financial statements.



**JESSAMINE SOUTH ELKHORN WATER DISTRICT-WATER DIVISION**  
**SCHEDULE OF REVENUES AND EXPENSES -**  
**BUDGET AND ACTUAL**  
For the Year Ended December 31, 2013

	Amended Budget	Actual	Over (Under) Budget
<b>OPERATING REVENUES:</b>			
Water service charges	\$ 2,479,132	\$ 1,989,907	\$ (489,225)
Penalties	21,180	20,985	(195)
Service charges	7,872	7,690	(182)
Other	746	12,158	11,412
	<u>2,508,930</u>	<u>2,030,740</u>	<u>(478,190)</u>
<b>Total Operating Revenues</b>			
	<u>2,508,930</u>	<u>2,030,740</u>	<u>(478,190)</u>
<b>OPERATING EXPENSES:</b>			
<b>Costs of sales</b>			
Water purchased	1,372,528	1,071,538	(300,990)
Total Cost of Sales	<u>1,372,528</u>	<u>1,071,538</u>	<u>(300,990)</u>
<b>Operations and Maintenance</b>			
Compensation			
Gross wages	192,035	197,371	5,336
Meter reading	12,025	11,931	(94)
Commissioner salaries	21,450	24,779	3,329
Payroll taxes	20,978	22,019	1,041
Employee insurance	36,071	32,899	(3,172)
Retirement expenses	12,534	11,941	(593)
Total Compensation	<u>295,093</u>	<u>300,940</u>	<u>5,847</u>
<b>Contractual Services</b>			
Engineering	53,817	17,464	(36,353)
Accounting	11,128	7,895	(3,233)
Legal	45,090	10,482	(34,608)
Contractual other expenses	5,626	5,608	(18)
Total Contractual Services	<u>115,661</u>	<u>41,449</u>	<u>(74,212)</u>

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT-WATER DIVISION**  
**SCHEDULE OF REVENUES AND EXPENSES -**  
**BUDGET AND ACTUAL (Continued)**  
For the Year Ended December 31, 2013

	Amended Budget	Actual	Over (Under) Budget
Materials and supplies			
Office expense	\$ 37,613	\$ 34,926	\$ (2,687)
Other expenses	8,459	7,898	(561)
Repairs and maintenance	75,050	68,912	(6,138)
Travel and vehicle	13,371	13,297	(74)
Total Materials and Supplies	<u>134,493</u>	<u>125,033</u>	<u>(9,460)</u>
Utilities, Insurance and Other			
Utilities	16,794	15,737	(1,057)
Communications	4,735	4,147	(588)
Insurance	19,281	24,848	5,567
Bad debt	4,100	4,152	52
Total Utilities, Insurance and Other	<u>44,910</u>	<u>48,884</u>	<u>3,974</u>
Depreciation Expense	<u>417,231</u>	<u>418,927</u>	<u>1,696</u>
Total Operating Expenses	<u>2,379,916</u>	<u>2,006,771</u>	<u>(373,145)</u>
Total Operating Revenues Less Expenses	<u>129,014</u>	<u>23,969</u>	<u>(105,045)</u>
NON-OPERATING REVENUES (EXPENSES):			
Water connection and tap fees	12,124	29,281	17,157
Capital contributions from grants		40,452	40,452
Income from investments	3,569	1,487	(2,082)
Interest & amortization expense	(107,473)	(194,803)	(87,330)
Transfers (to) from other funds		(21,181)	(21,181)
Total non-operating revenues(expenses)	<u>(91,780)</u>	<u>(144,764)</u>	<u>(52,984)</u>
CHANGE IN NET ASSETS	<u>37,234</u>	\$ <u>(120,795)</u>	\$ <u>(158,029)</u>
Other budgeted cash flows			
Capital construction	(60,000)		
Meters and other capital purchases	(21,439)		
Debt service principal	(86,105)		
	<u>(167,544)</u>		
Budgeted increase in net assets	\$ <u>(130,310)</u>		

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT-SEWER DIVISION**  
**SCHEDULE OF REVENUES AND EXPENSES -**  
**BUDGET AND ACTUAL**  
For the Year Ended December 31, 2013

	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>OPERATING REVENUES:</b>			
Sewer service charges:	\$ 481,597	\$ 446,944	\$ (34,653)
Penalties	11,355	11,357	2
Service charges	11,312	8,679	(2,633)
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Revenues	<u>504,264</u>	<u>466,980</u>	<u>(37,284)</u>
<b>OPERATING EXPENSES:</b>			
<b>Costs of sales</b>			
Sewer usage	<u>230,959</u>	<u>248,258</u>	<u>17,299</u>
Total Cost of Sales	<u>230,959</u>	<u>248,258</u>	<u>17,299</u>
<b>Operations and Maintenance</b>			
Compensation			
Gross wages	93,981	100,955	6,974
Meter reading	2,608	3,135	527
Commissioner salaries	4,550	5,421	871
Payroll taxes	3,460	4,936	1,476
Employee insurance	7,002	7,439	437
Retirement expenses	2,500	2,641	141
Total Compensation	<u>114,101</u>	<u>124,527</u>	<u>10,426</u>
Contractual Services			
Engineering	76,954	46,512	(30,442)
Accounting	1,750	1,750	1,750
Legal	22,159	17,190	(4,969)
Contractual other expenses	8,582	8,582	8,582
Total Contractual Services	<u>99,113</u>	<u>74,034</u>	<u>(25,079)</u>

See accompanying notes to financial statements.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT-SEWER DIVISION**  
**SCHEDULE OF REVENUES AND EXPENSES -**  
**BUDGET AND ACTUAL (Continued)**  
For the Year Ended December 31, 2013

	Amended Budget	Actual	Over (Under) Budget
Materials and supplies			
Office expense	\$ 11,465	\$ 9,191	\$ (2,274)
Other expenses			0
Repairs and maintenance	40,009	37,199	(2,810)
Travel and vehicle	6,456	5,516	(940)
Total Materials and Supplies	<u>57,930</u>	<u>51,906</u>	<u>(6,024)</u>
Utilities, Insurance and Other			
Utilities	11,533	13,571	2,038
Communications		940	940
Insurance	5,070	5,670	600
Bad debt	13,353	13,178	(175)
Total Utilities, Insurance and Other	<u>29,956</u>	<u>33,359</u>	<u>3,403</u>
Depreciation Expense	<u>207,005</u>	<u>207,005</u>	<u>0</u>
Total Operating Expenses	<u>739,064</u>	<u>739,089</u>	<u>25</u>
Total Operating Revenues Less Expenses	<u>(234,800)</u>	<u>(272,109)</u>	<u>(37,309)</u>
NON-OPERATING REVENUES (EXPENSES):			
Sewer tap fees	101,783	88,686	(13,097)
Capital contributions from grants		717,483	717,483
Income from investments	277	132	(145)
Interest & amortization expense	(43,213)	(46,490)	(3,277)
Transfers (to) from other funds		29,076	29,076
Total non-operating revenues(expenses)	<u>58,847</u>	<u>788,887</u>	<u>730,040</u>
CHANGE IN NET ASSETS	<u>(175,953)</u>	\$ <u>516,778</u>	\$ <u>692,731</u>
Other budgeted cash flows			
Debt service principal	<u>(17,800)</u>		
	<u>(17,800)</u>		
Budgeted increase in net assets	\$ <u>(193,753)</u>		

See accompanying notes to financial statements.



Ieta G. Mattingly, CPA  
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Veronica L. Roberts

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*Charles D. Fain, III, CPA*  
*(1955-2002)*  
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Members of  
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Certified Public Accountants  
American Institute of  
Certified Public Accountants

**Report on Compliance and Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance  
With Government Auditing Standards**

The Board of Commissioners  
Jessamine South Elkhorn Water District  
Water and Sewer Divisions  
Nicholasville, 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 Jessamine South Elkhorn Water District, Water and Sewer Divisions (District), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 10, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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* (Continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Nicholasville, Kentucky's financial statements are free from *material misstatement*, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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*.

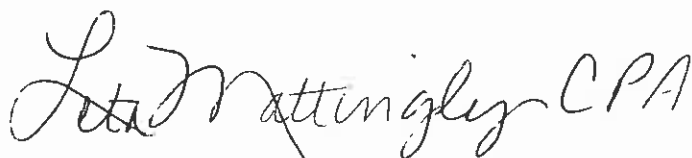
We noted certain matters that we reported to management of the District in a separate letter dated March 10, 2014.

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* (Continued)

**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.

This report is intended solely for the information and use of management, the audit committee, District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Leta Mattingly CPA". The signature is fluid and cursive, with the letters "Leta" and "Mattingly" connected, and "CPA" written separately at the end.

Fain, Mattingly & Associates, P.S.C., CPAs

March 10, 2014



Leta G. Mattingly, CPA  
Nancy J. Clark, CPA  
Veronica L. Roberts

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*Charles D. Fain, III, CPA*  
*(1955-2002)*  
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*Members of*  
*Kentucky Society of*  
*Certified Public Accountants*  
  
*American Institute of*  
*Certified Public Accountants*

**Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133**

The Board of Commissioners  
Jessamine South Elkhorn Water District  
Water and Sewer Divisions  
Nicholasville, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Jessamine South Elkhorn Water District, Water and Sewer Divisions' (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have direct and material effect on each of the District's major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.



## **Auditors' Responsibility**

Our responsibility is to express an opinion on each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion for each major federal program. However, our audit does not provide a legal determination of the District's compliance with those requirements.

## **Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the Jessamine South Elkhorn Water District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2013.

## **Report on Internal Control Over Compliance**

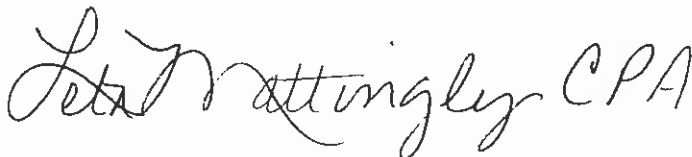
Management of the Jessamine South Elkhorn Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Letia Mattingly CPA". The signature is fluid and cursive, with the first name "Letia" and last name "Mattingly" clearly legible, followed by "CPA".

Fain, Mattingly & Associates, P.S.C.  
Certified Public Accountants

March 10, 2014

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Federal Expenditures</u>
<u>United States Department of Agriculture</u>			
Waste Water Disposal Systems	10.760	Kentucky Rural Water Association	\$ <u>458,327</u>
Total Department of Agriculture			<u>458,327</u>
<u>Environmental Protection Agency</u>			
Special Appropriations Water Infrastructure Grant	66.202	XP-96406404-0	229,156
Kentucky Infrastructure Authority Assisted Drinking Water	66.468	F07-02	<u>24,195</u>
Total Environmental Agency			<u>253,351</u>
Total Federal Expenditures			\$ <u><u>711,678</u></u>

## JESSAMINE SOUTH ELKHORN WATER DISTRICT

### Schedule of Finding and Questioned Costs

For the Year Ended December 31, 2013

#### Section I-Summary of Auditors' Results Financial Statements

The auditors' report expresses an unqualified opinion on the financial statements of the Jessamine South Elkhorn Water District.

No material weaknesses were identified in the internal controls over financial reporting.

There were no significant deficiencies not identified to be material in the internal controls over financial reporting.

No instances of noncompliance material to the financial statements of the Jessamine South Elkhorn Water District were disclosed during the audit.

#### Federal Awards

No material weaknesses were identified in the internal control over major programs.

The auditors' report on compliance for major programs expresses an unqualified opinion.

There are no audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133.

#### Identification of Major Programs

##### CFDA Number

##### Name of Federal Program or Cluster

10.760

Waste Water Disposal Systems for Rural  
Communities Loan

Dollar Threshold used to distinguish  
Between type A and type B programs

\$300,000

The auditee qualified as a high-risk auditee.

**JESSAMINE SOUTH ELKHORN WATER DISTRICT**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2013

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and questioned Costs

None

**Summary of Prior Year Findings**

None

**Corrective Action Plan**

Not Applicable

