

**JESSAMINE-SOUTH ELKHORN  
WATER DISTRICT  
Nicholasville, Kentucky**

---

**FINANCIAL STATEMENTS  
December 31, 2014**

## CONTENTS

Management's Discussion and Analysis .....	1-6
Independent Auditors' Report.....	7-8
Financial Statements:	
Statement of Net Position .....	9
Statement of Revenues, Expenses and Changes in Net Position .....	10
Statement of Cash Flows.....	11
Notes to Financial Statements .....	12-19
Supplementary Information:	
Schedules of Revenues and Expenses – Actual to Budget.....	20-21
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <b>Government Auditing Standards</b> .....	22-23
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 .....	24-25
Schedule of Expenditures of Federal Awards.....	26
Schedule of Findings and Questioned Costs .....	27-28

# JESSAMINE SOUTH ELKHORN WATER DISTRICT

## Water and Sewer Divisions

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's 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, 2014.

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 Division 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 county.

#### **Highlights**

- The District's assets exceeded its liabilities by \$15,602,640 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$15,885,737 (restated).

- Total net position is comprised of the following:

- Unrestricted 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 \$15,602,640 this year. This compares to the prior year ending fund balance of \$15,885,737 showing a decrease of \$283,097 during the current year.

- At the end of the current fiscal year, unrestricted fund balance for the Enterprise Fund was \$26,296 or 0.9% of the total Enterprise Fund expenditures including transfers and 1.0% of total Enterprise Fund revenues including transfers.
- The liabilities for the District in the current year were \$8,447,218. Prior year liabilities were \$6,335,955.
- 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 2,810 water and 641 sewer customers.

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

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include proprietary fund statements and notes to the financial statements. The first of these proprietary fund statements is the *Statement of Net Position*. This statement presents all of the District's assets and liabilities, with the difference reported as net position.

The second proprietary fund statement is the *Statement of Revenues, Expenses and Changes in Net Position* which reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The third proprietary fund statement is the Statement of Cash Flows which reports cash amounts received and expended for operations, financing and investment in capital assets, and investing.

Business-type (proprietary) 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 the sewer division and expansion of the water division to serve the citizens of Jessamine County.

The District uses internal funds to ensure and demonstrate compliance with finance-related laws and regulations. The District maintains a water fund and a sewer fund for financial reporting purposes.

The District uses the following cash accounts for the water division:

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

Operations 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 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 of 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 is \$15,602,640. This is a decrease of \$283,097 from last year’s net position of \$15,885,737. The following table provides a summary of the District’s net position:

	<b>Business-type Activities</b>		<b>Amount</b>	<b>Percent</b>
	<b>12/31/2014</b>	<b>12/31/2013</b>	<b>Change</b>	<b>Change</b>
<b>Assets</b>				
Current and other Assets	\$ 348,673	\$ 557,485	\$ (208,812)	-37.46%
Non-current assets	1,234,951	944,684	290,267	30.73%
Capital assets	22,466,234	20,719,523	1,746,711	8.43%
<b>Total Assets</b>	<b>24,049,858</b>	<b>22,221,692</b>	<b>1,828,166</b>	<b>8.23%</b>
Current and other Liabilities	441,467	390,872	50,595	12.94%
Current Long-term Debt	171,281	91,741	79,540	86.70%
Non-current Long-term Debt	7,834,470	5,853,342	1,981,128	33.85%
<b>Total Liabilities</b>	<b>8,447,218</b>	<b>6,335,955</b>	<b>2,111,263</b>	<b>33.32%</b>
<b>Net Position</b>				
Net investment in capital assets	14,460,483	14,774,440	(313,957)	-2.13%
Restricted	1,115,861	828,910	286,951	34.62%
Unrestricted Unreserved	(90,089)	166,547	(256,636)	-154.09%
Unrestricted-board designated depreciation reserves	116,385	115,840	545	0.47%
<b>TOTAL NET POSITION</b>	<b>\$ 15,602,640</b>	<b>\$ 15,885,737</b>	<b>\$ (283,097)</b>	<b>-1.78%</b>

Net position decreased \$283,097 for proprietary activities. The District’s overall financial position decreased during fiscal year 2014.

Because the District does not heavily depend on interest income for operations and does not have any funds invested in the stock market, the fluctuations 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 \$283,097 more than the revenues. The difference is attributable to depreciation charges.

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

	<b>Business-type Activities</b>		<b>Amount Change</b>	<b>Percent Change</b>
	<b>12/31/2014</b>	<b>12/31/2013</b>		
General Revenues				
Water and Sewer Sales	\$ 2,529,654	\$ 2,436,851	\$ 92,803	3.81%
Other Revenues	103,417	60,869	42,548	69.90%
Total Revenues	<u>2,633,071</u>	<u>2,497,720</u>	<u>135,351</u>	<u>5.42%</u>
Operating Expenses	<u>2,799,552</u>	<u>2,737,965</u>	<u>61,587</u>	<u>2.25%</u>
Net Operating Income	(166,481)	(240,245)	73,764	-30.70%
Other Income	1,411	1,619	(208)	-12.91%
Other Expenses	<u>(228,965)</u>	<u>(367,783)</u>	<u>138,818</u>	<u>-37.74%</u>
Subtotal Other Income/Expenses	(227,554)	(366,164)	138,610	-37.85%
Connection Fees & Construction Governmental Construction	110,938	117,967	(7,029)	-5.96%
Grants	0	757,935	(757,935)	-100.00%
Subtotal Capital Income	<u>110,938</u>	<u>875,902</u>	<u>(764,964)</u>	<u>-87.33%</u>
Change in Net Assets	(283,097)	269,493	(552,590)	-205.05%
Net Assets Beginning of Year	<u>15,885,737</u>	<u>15,616,244</u>	<u>269,493</u>	<u>1.73%</u>
Net Assets End of Year	<u>\$ 15,602,640</u>	<u>\$ 15,885,737</u>	<u>\$ (283,097)</u>	<u>-1.78%</u>

As portrayed above and discussed earlier, the District is heavily reliant on revenues from sales of water and sewer services which provides 99.9% of the District's operating revenues in fiscal years 2014 and 2013.

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

### **Proprietary Funds**

The year-end total of net position for the proprietary funds was \$15,602,640. Of the year-end total, approximately \$(90,089) is unreserved for operations, \$116,385 for Board designated projects, \$1,115,681 restricted for either debt service or construction, and \$14,460,483 in net investment in capital assets.

The total ending fund balances of the proprietary fund shows a decrease of \$283,097 from the prior year. This decrease was due primarily to the decrease in grants revenues.

### **Enterprise Fund Budgetary Highlights**

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

Budgetary comparison statements are included in the additional supplementary information section of the financial statements for the water and sewer funds. 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 \$632,380 was expensed on the statement of revenue, expenses and changes in net position. During the year the District received connection fees for the construction of assets in the amount of \$110,938. Other financing of capital assets were provided by loans and operating funds. Net capital assets increased by \$1,746,711 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 \$2,927,127 in loan funds. Repayment of \$866,459 in principal was made on other debt. Interest expense paid during the year on long-term debt was \$228,965.

### **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 health hazards 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 will shortly complete two projects to replace deteriorated and leaking gray pipe that was installed in the early 1970's. The construction of an elevated storage tank in the north end of Jessamine County is still needed and contemplated to begin construction in 2015 pending final approval.

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



## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Jessamine-South Elkhorn Water District  
Nicholasville, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Jessamine-South Elkhorn Water District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***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 from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Jessamine-South Elkhorn Water District, as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-6 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 Jessamine-South Elkhorn Water District's basic financial statements. The budgetary comparisons are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparisons 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 directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the previously referenced statements 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 April 28, 2015, on our consideration of the Jessamine-South Elkhorn Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering Jessamine-South Elkhorn Water District's internal control over financial reporting and compliance.

**RFH**  
RFH, PLLC  
April 28, 2015

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2014**

	<b>Water Division</b>	<b>Sewer Division</b>	<b>Total Business-Type Activities</b>
<b>ASSETS</b>			
Current assets			
Cash	\$ 213,802	\$ 59,309	\$ 273,111
Accounts receivable customers, net	33,376	25,602	58,978
Other receivables	3,922	581	4,503
Due to (from) other funds	225,175	(225,175)	-
Prepaid Insurance	<u>12,081</u>	<u>-</u>	<u>12,081</u>
Total current assets	<u>488,356</u>	<u>(139,683)</u>	<u>348,673</u>
Restricted assets			
Cash	677,222	426,483	1,103,705
Certificates of deposit	<u>131,246</u>	<u>-</u>	<u>131,246</u>
Total restricted assets	<u>808,468</u>	<u>426,483</u>	<u>1,234,951</u>
Capital assets			
Property, plant and equipment	16,898,903	9,361,006	26,259,909
Less: accumulated depreciation	(5,645,255)	(1,076,829)	(6,722,084)
Construction in progress	<u>2,928,409</u>	<u>-</u>	<u>2,928,409</u>
Total capital assets	<u>14,182,057</u>	<u>8,284,177</u>	<u>22,466,234</u>
Total assets	<u>\$ 15,478,881</u>	<u>\$ 8,570,977</u>	<u>\$ 24,049,858</u>
<b>LIABILITIES AND NET POSITION</b>			
Current liabilities			
Accounts payable	\$ 171,943	\$ 73,019	\$ 244,962
Customer deposits	36,436	78,172	114,608
Accrued interest payable	53,668	28,229	81,897
Current portion of notes payable	100,281	-	100,281
Current portion of bonds payable	<u>52,000</u>	<u>19,000</u>	<u>71,000</u>
Total current liabilities	<u>414,328</u>	<u>198,420</u>	<u>612,748</u>
Long-term debt			
Notes payable	4,458,670	-	4,458,670
Bonds payable	<u>1,919,000</u>	<u>1,456,800</u>	<u>3,375,800</u>
Total long-term debt	<u>6,377,670</u>	<u>1,456,800</u>	<u>7,834,470</u>
Net position			
Net investment in capital assets	7,652,106	6,808,377	14,460,483
Restricted for debt service	78,063	147,875	225,938
Restricted for capital projects	367,493	278,608	646,101
Restricted for depreciation	14,861	-	14,861
Restricted for operation and maintenance	228,961	-	228,961
Unrestricted - board designated	116,385	-	116,385
Unrestricted	<u>229,014</u>	<u>(319,103)</u>	<u>(90,089)</u>
Total net position	<u>8,686,883</u>	<u>6,915,757</u>	<u>15,602,640</u>
Total liabilities and net position	<u>\$ 15,478,881</u>	<u>\$ 8,570,977</u>	<u>\$ 24,049,858</u>

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

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
for the year ended December 31, 2014

	<b>Water Division</b>	<b>Sewer Division</b>	<b>Total Business-Type Activities</b>
<b>OPERATING INCOME</b>			
Water sales	\$ 2,041,908	\$ -	\$ 2,041,908
Sewer sales	-	487,746	487,746
Other revenue	<u>85,253</u>	<u>18,164</u>	<u>103,417</u>
 Total operating income	 <u>2,127,161</u>	 <u>505,910</u>	 <u>2,633,071</u>
<b>OPERATING EXPENSES</b>			
Water purchases	933,895	-	933,895
Sewer usage	-	265,030	265,030
Operation	309,451	140,732	450,183
Maintenance	177,920	36,801	214,721
General and administrative	<u>151,087</u>	<u>152,256</u>	<u>303,343</u>
 Total operating expense	 <u>1,572,353</u>	 <u>594,819</u>	 <u>2,167,172</u>
 Operating income before depreciation	 554,808	 (88,909)	 465,899
Depreciation expense	<u>(421,648)</u>	<u>(210,732)</u>	<u>(632,380)</u>
<b>OPERATING INCOME (LOSS)</b>	133,160	(299,641)	(166,481)
Non-operating income (expenses)			
Interest income	1,284	127	1,411
Interest expense related to debt	<u>(195,403)</u>	<u>(33,562)</u>	<u>(228,965)</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(60,959)	(333,076)	(394,035)
Capital contributions			
Customer contributions	1,850	51,033	52,883
Tap fees	<u>27,470</u>	<u>30,585</u>	<u>58,055</u>
 Change in net position	 (31,639)	 (251,458)	 (283,097)
Net position, beginning of year, as restated	<u>8,718,522</u>	<u>7,167,215</u>	<u>15,885,737</u>
 <b>NET POSITION, END OF YEAR</b>	 <u>\$ 8,686,883</u>	 <u>\$ 6,915,757</u>	 <u>\$ 15,602,640</u>

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

**JESSAMINE-SOUTH ELKHORN WATR DISTRICT**  
**STATEMENT OF CASH FLOWS**  
for the year ended December 31, 2014

	<b>Water Division</b>	<b>Sewer Division</b>	<b>Total Business-Type Activities</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 2,191,875	\$ 484,983	\$ 2,676,858
Payments to suppliers	(1,216,953)	(387,631)	(1,604,584)
Payments for employee services and benefits	<u>(387,580)</u>	<u>(124,616)</u>	<u>(512,196)</u>
Net cash provided by (used in) operating activities	<u>587,342</u>	<u>(27,264)</u>	<u>560,078</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Retirement of note principal	(847,885)	(18,574)	(866,459)
Borrowings under long-term obligations	2,927,127	-	2,927,127
Interest paid	(195,403)	(33,562)	(228,965)
Customer contributions and tap fees	29,320	81,618	110,938
Purchase of fixed assets	<u>(2,354,581)</u>	<u>(24,509)</u>	<u>(2,379,090)</u>
Net cash provided by (used in) capital and related financing activities	<u>(441,422)</u>	<u>4,973</u>	<u>(436,449)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	<u>1,283</u>	<u>127</u>	<u>1,410</u>
Net cash provided by investing activities	<u>1,283</u>	<u>127</u>	<u>1,410</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	147,203	(22,164)	125,039
Cash, beginning of year	<u>875,067</u>	<u>507,956</u>	<u>1,383,023</u>
<b>CASH, END OF YEAR</b>	<u><b>\$ 1,022,270</b></u>	<u><b>\$ 485,792</b></u>	<u><b>\$ 1,508,062</b></u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>			
Operating income (loss)	\$ 133,160	\$ (299,641)	\$ (166,481)
Noncash items included in operating income			
Depreciation	421,648	210,732	632,380
Changes in assets and liabilities			
(Increase) decrease in accounts receivables	68,636	(20,346)	48,290
(Increase) decrease in other receivables	(3,922)	(581)	(4,503)
(Increase) decrease in due to (from) other funds	(104,258)	104,258	-
(Increase) decrease in prepaids	(203)	-	(203)
Increase (decrease) in accounts payable	56,854	41,472	98,326
Increase (decrease) in other payables	(3,618)	-	(3,618)
Increase (decrease) in other current liabilities	-	-	-
Increase (decrease) in interest payables	14,595	(22,031)	(7,436)
Increase (decrease) in customer deposits	<u>4,450</u>	<u>(41,127)</u>	<u>(36,677)</u>
Net cash provided by (used in) operating activities	<u><b>\$ 587,342</b></u>	<u><b>\$ (27,264)</b></u>	<u><b>\$ 560,078</b></u>

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

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

---

**1. ORGANIZATION AND ACCOUNTING POLICIES**

The Jessamine-South Elkhorn Water District, Water and Sewer Divisions (the District) is a special district formed for the express purpose of providing water service within the confines of Jessamine County, Kentucky. The District operates as an independent entity in that it is legally separate and holds corporate powers of organization.

**Reporting Entity**

The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The District consists of the Jessamine-South Elkhorn Water District Water Division, and Jessamine South Elkhorn Water District Sewer Division. The District has oversight responsibility for no other organization.

**Basis of Accounting**

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system in addition to customer deposits.

When both restricted and unrestricted resources are available for use, the District's Board of Commissioners makes a determination as to which resource should be used first.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The District reports all revenues and expenses as operating, except interest income, interest expense, gains and losses on disposal of assets, and capital contributions.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District defines cash as cash on hand, cash in bank, money market funds in both unrestricted and restricted accounts, and certificates of deposit with an initial maturity of less than 90 days.

**Accounts Receivable**

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. The reserve for the year ended December 31, 2014 totaled \$4,640.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

---

**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment**

Fixed assets of the District are recorded at cost and depreciated over their estimated useful lives using the straight line method. Plant and lines are capitalized with lives ranging from 5-65 years and furniture and equipment are capitalized with lives ranging from 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 have been 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. Land and land rights are not subject to depreciation. Interest costs during construction of fixed assets are capitalized as a part of the cost.

**Interfund Transfers**

The asset "due from other funds" and the liability "due to other funds" represent amounts transferred between funds owed for operating and non-operating expenses.

**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 period. Actual results could differ from those estimates.

**Management's Review of Subsequent Events**

The District has evaluated and considered the need to recognize or disclose subsequent events through April 28, 2015, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2014, have not been evaluated by the District.

**2. CASH AND INVESTMENTS**

Kentucky Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States Government or its agencies.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest. The District's deposits and investments at December 31, 2014 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**2. CASH AND INVESTMENTS (CONTINUED)**

The table presented below is designed to disclose the level of custody credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2014. The categories of credit risk are defined as follows:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterpart's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterpart or by its trust department or agent but not in the government's name.

Type of Deposit	Category			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 1,376,816	\$ -	\$ -	\$ 1,376,816	\$ 1,376,816
Certificates of deposit	<u>131,246</u>	<u>-</u>	<u>-</u>	<u>131,246</u>	<u>131,246</u>
	<u>\$ 1,508,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,508,062</u>	<u>\$ 1,508,062</u>

The Statement of Cash Flows includes the following cash balances as shown on the Statements of Net Position at December 31, 2014:

	Unrestricted	Board Designated	Restricted	Total
Revenue Fund	\$ 79,608	\$ 27,994	\$ 116,385	\$ 223,987
Operation and Maintenance Fund	43,065	-	-	43,065
Bond and Interest Fund- Water	-	-	78,063	78,063
Debt Service Reserve	-	-	203,672	203,672
Depreciation Fund	-	-	14,861	14,861
Construction Fund- Water	<u>91,129</u>	<u>-</u>	<u>367,493</u>	<u>458,622</u>
Water Total	<u>213,802</u>	<u>27,994</u>	<u>780,474</u>	<u>1,022,270</u>
Construction Fund- Sewer	-	-	278,608	278,608
Bond and Interest Fund- Sewer	-	-	147,875	147,875
Sewer accounts	<u>59,309</u>	<u>-</u>	<u>-</u>	<u>59,309</u>
Sewer Total	<u>59,309</u>	<u>-</u>	<u>426,483</u>	<u>485,792</u>
Total	<u>\$ 273,111</u>	<u>\$ 27,994</u>	<u>\$ 1,206,957</u>	<u>\$ 1,508,062</u>

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**3. CAPITAL ASSETS**

The following is a summary of capital asset activity during the year:

	<b>Balance 12/31/2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2014</b>
Capital assets not depreciated:				
Construction in progress - water	\$ 621,872	\$ 2,306,537	\$ -	\$ 2,928,409
Construction in progress - sewer	<u>1,124,313</u>	<u>24,509</u>	<u>(1,148,822)</u>	<u>-</u>
Total not depreciated	<u>1,746,185</u>	<u>2,331,046</u>	<u>(1,148,822)</u>	<u>2,928,409</u>
Capital assets being depreciated:				
Utility plant/distribution system	16,321,057	48,045	-	16,369,102
Sewer collection	8,139,815	1,148,822	-	9,288,637
Building	450,000	-	-	450,000
Operating equipment and furniture	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>-</u>	<u>-</u>	<u>1,031</u>
Total depreciated	<u>25,063,042</u>	<u>1,196,867</u>	<u>-</u>	<u>26,259,909</u>
Accumulated depreciation - water	(5,223,607)	(421,648)	-	(5,645,255)
Accumulated depreciation - sewer	<u>(866,097)</u>	<u>(210,732)</u>	<u>-</u>	<u>(1,076,829)</u>
Total depreciation	<u>(6,089,704)</u>	<u>(632,380)</u>	<u>-</u>	<u>(6,722,084)</u>
Net depreciable assets	<u>18,973,338</u>	<u>564,487</u>	<u>-</u>	<u>19,537,824</u>
Total capital assets, net	<u>\$ 20,719,523</u>	<u>\$ 2,895,533</u>	<u>\$ (1,148,822)</u>	<u>\$ 22,466,234</u>

Depreciation expense totaled \$632,380 for the year ended December 31, 2014.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014**

---

**4. LONG-TERM DEBT**

The following is a summary of the bonds outstanding for the district for the years ended December 31, 2014.

Series 2000B Revenue Bonds, various annual principal and interest payments at 5.125% through January 2039.	\$ 336,000
Series 2009A Revenue Bonds, various annual principal and semi-annual interest payments at 2.625% through January 2050.	232,300
Series 2008B Revenue Bonds, various annual principal and semi-annual interest payments at 4.375% through January 2050.	510,500
Series 2008A Revenue Bonds, various annual principal and semi-annual interest payments at 4.25% through January 2050.	733,000
Series 2012C Revenue Bonds, various annual principal and semi-annual interest payments at a flexible interest rate between 2.15% and 4.15% through January 2039.	<u>1,635,000</u>
Total	3,446,800
Less: current portion of debt	<u>(71,000)</u>
Long-term debt	<u>\$ 3,375,800</u>

The following is a summary of the notes outstanding for the District for the years ended December 31, 2014.

Central Bank note payable, monthly payments of \$6,422 including principal and interest at 3.25% through maturity in September 2019, with a final balloon payment for the remaining balance due at maturity.	\$ 293,160
Central Bank note payable, monthly payments of \$2,342 including principal and interest at 3.25% through maturity in September 2019, with a final balloon payment for the remaining balance due at maturity, secured by the District's office facilities.	405,600
2007 Kentucky Infrastructure Authority Revolving Loan F07-02, various semi-annual principal and interest payments at 3% through 2033.	<u>1,648,064</u>
Total	2,346,824
Less: current portion of debt	<u>(100,281)</u>
Long-term debt	<u>\$ 2,246,543</u>

The District has a note payable for a 2013 Kentucky Infrastructure Authority Revolving Loan, with interest only payments due semi-annual at a rate of 3%. Principal payments shall be repaid over a period not to exceed 20 years from the date the loan is closed. The balance at December 31, 2014 totaled \$2,212,127. This loan was not closed at December 31, 2014.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**4. LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize all bonds outstanding as of December 31, 2014 are as follows:

Fiscal Year	Principal	Interest	Total
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	80,400	126,361	206,761
2020-2024	438,800	586,885	1,025,685
2025-2029	524,100	498,660	1,022,760
2030-2034	635,300	382,854	1,018,154
2035-2039	786,600	240,761	1,027,361
2040-2044	275,000	118,235	393,235
2045-2049	336,000	57,560	393,560
2050-2054	<u>75,000</u>	<u>3,079</u>	<u>78,079</u>
	<u>\$ 3,446,800</u>	<u>\$ 2,543,989</u>	<u>\$ 5,990,789</u>

The annual requirements to amortize all notes payable outstanding as of December 31, 2014 are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 100,281	\$ 70,236	\$ 170,517
2016	102,238	68,279	170,517
2017	104,965	65,553	170,518
2018	108,227	62,291	170,518
2019	643,133	58,622	701,755
2020-2024	417,893	165,759	583,652
2025-2029	484,981	98,670	583,651
2030-2034	<u>385,106</u>	<u>23,450</u>	<u>408,556</u>
	<u>\$ 2,346,824</u>	<u>\$ 612,860</u>	<u>\$ 2,959,684</u>

The following is a summary of changes in long-term debt:

	December 31, 2013	Additions	Retirements	December 31, 2014	Due Within One Year
Long-term debt	<u>\$ 5,945,083</u>	<u>\$ 2,927,127</u>	<u>\$ (866,459)</u>	<u>\$ 8,005,751</u>	<u>\$ 171,281</u>

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

---

**5. COMPLIANCE WITH BOND RESOLUTION**

The bond resolution requires the District to maintain certain reserves as follows:

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.

Revenue Bond Fund Principal and Interest Sinking Fund, Sewer Fund - The District deposits each month an amount equal to one twelfth (1/12) of the amount of interest becoming due on all bonds outstanding on the next ensuing semiannual 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 1st. As of December 31, 2014, the balance in this account exceeded the required amount.

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, 2014, the accounts that comprise the Debt Service Reserve Account-Water and Debt Service Reserve Account-Sewer exceeded the required amount.

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, 2014, the total balance of the funds that comprise the Operation and Maintenance Fund exceeded the required amount.

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. As of December 31, 2014, \$14,861 has been accumulated and exceeded the required amount.

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, 2014.

**6. RETIREMENT PLAN**

The District offers employees the option to participate in a Simplified Employee Pension Individual Retirement Account (SEP IRA) after completing three years of employment. The District contributes 6% of eligible employees salary to the SEP IRA annually. For the year ended December 31, 2014, the District contributed \$12,434 towards the employee retirement program.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

---

**7. 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 a rate of 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 at a rate of one day for every month of employment and may accumulate to total no more than seventy-five days.

**8. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**9. RESTATEMENT OF NET POSITION**

The beginning net position has been restated to remove prior year bond issue costs. Effective for the year ending December 31, 2013, GASB Statement No. 65, requires bond issue costs to be recognized as a current period expense. Prior guidance recognized the bond issue costs as an asset, which was systematically amortized over the life of the debt. GASB Statement No. 65 was applied retroactively. A reconciliation of the prior period ending net position to the current year beginning net position is as follows:

	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
Beginning net position, 2013	\$ 8,809,038	\$ 7,203,189	\$ 16,012,227
Adjustment of remaining bond issue costs	<u>(90,516)</u>	<u>(35,974)</u>	<u>(126,490)</u>
Beginning net position, as restated, 2013	<u>\$ 8,718,522</u>	<u>\$ 7,167,215</u>	<u>\$ 15,885,737</u>

**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.

## **SUPPLEMENTARY INFORMATION**

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**SCHEDULE OF REVENUE AND EXPENSES - ACTUAL TO BUDGET - WATER DIVISION**  
for the year ended December 31, 2014

	Original Budget	Amended Budget	Actual	Variance
<b>OPERATING REVENUE</b>				
Water sales	\$ 2,055,423	\$ 2,055,423	\$ 2,041,908	\$ (13,515)
Other revenues	<u>92,124</u>	<u>92,124</u>	<u>85,253</u>	<u>(6,871)</u>
<b>Total operating revenue</b>	<u>2,147,547</u>	<u>2,147,547</u>	<u>2,127,161</u>	<u>(20,386)</u>
<b>OPERATING EXPENSES</b>				
Water purchases	957,041	957,041	933,895	(23,146)
Operation	307,532	307,532	309,451	1,919
Maintenance	105,405	105,405	177,920	72,515
General and administrative	<u>126,709</u>	<u>126,709</u>	<u>151,087</u>	<u>24,378</u>
<b>Total operating expense</b>	<u>1,496,687</u>	<u>1,496,687</u>	<u>1,572,353</u>	<u>75,666</u>
<b>Operating income before depreciation</b>	650,860	650,860	554,808	(96,052)
Depreciation expense	<u>(448,109)</u>	<u>(448,109)</u>	<u>(421,648)</u>	<u>(10,163)</u>
<b>OPERATING INCOME</b>	202,751	202,751	133,160	(106,215)
Non-operating income (expenses)				
Interest income	830	830	1,284	454
Interest expense	<u>(92,781)</u>	<u>(92,781)</u>	<u>(195,403)</u>	<u>(102,622)</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	110,800	110,800	(60,959)	(208,383)
Capital contributions				
Customer contributions	-	-	1,850	1,850
Tap fees	<u>-</u>	<u>-</u>	<u>27,470</u>	<u>27,470</u>
Change in net position	<u>\$ 110,800</u>	<u>\$ 110,800</u>	<u>\$ (31,639)</u>	<u>\$ (179,063)</u>

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT**  
**SCHEDULE OF REVENUE AND EXPENSES - ACTUAL TO BUDGET - SEWER DIVISION**  
**for the year ended December 31, 2014**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUE</b>				
Sewer sales	\$ 465,767	\$ 465,767	\$ 487,746	\$ 21,979
Other revenue	<u>23,782</u>	<u>23,782</u>	<u>18,164</u>	<u>(5,618)</u>
<b>Total operating revenue</b>	<u>489,549</u>	<u>489,549</u>	<u>505,910</u>	<u>16,361</u>
<b>OPERATING EXPENSES</b>				
Sewer Usage	222,440	222,440	265,030	42,590
Operation	128,218	128,218	140,732	12,514
Maintenance	147,786	147,786	36,801	(110,985)
General and administrative	<u>48,771</u>	<u>48,771</u>	<u>152,256</u>	<u>103,485</u>
<b>Total operating expense</b>	<u>547,215</u>	<u>547,215</u>	<u>594,819</u>	<u>47,604</u>
<b>Operating income before depreciation</b>	(57,666)	(57,666)	(88,909)	(31,243)
Depreciation expense	<u>(207,005)</u>	<u>(207,005)</u>	<u>(210,732)</u>	<u>(3,727)</u>
<b>OPERATING (LOSS)</b>	(264,671)	(264,671)	(299,641)	(34,970)
Non-operating income (expenses)				
Interest income	126	126	127	1
Interest expense	<u>(78,757)</u>	<u>(78,757)</u>	<u>(33,562)</u>	<u>45,195</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(343,302)	(343,302)	(333,076)	10,226
Capital contributions				
Customer contributions	-	-	51,033	51,033
Tap fees	<u>-</u>	<u>-</u>	<u>30,585</u>	<u>30,585</u>
Change in net position	<u>\$ (343,302)</u>	<u>\$ (343,302)</u>	<u>\$ (251,458)</u>	<u>\$ 91,844</u>



**JESSAMINE-SOUTH ELKHORN WATER DISTRICT  
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners  
Jessamine-South Elkhorn Water District  
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 Jessamine-South Elkhorn Water District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Jessamine-South Elkhorn Water District's financial statements, and have issued our report thereon dated April 28, 2015.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2014-001 and 2014-002).

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.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT  
INDEPENDENT AUDITORS' 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)**

**Compliance and Other Matters**

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

**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.

**RFH**

RFH, PLLC  
April 28, 2015



**JESSAMINE-SOUTH ELKHORN WATER DISTRICT  
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Commissioners  
Jessamine-South Elkhorn Water District

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

We have audited Jessamine-South Elkhorn Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Jessamine-South Elkhorn Water District's major federal programs for the year ended December 31, 2014. Jessamine-South Elkhorn Water 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 compliance for each of Jessamine-South Elkhorn Water 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 that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jessamine-South Elkhorn Water 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Jessamine-South Elkhorn Water District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Jessamine-South Elkhorn Water District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT  
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133  
(CONTINUED)**

**Report on Internal Control over Compliance**

Management of 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 Jessamine-South Elkhorn Water 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 the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 Jessamine-South Elkhorn Water District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

**RFH**

RFH, PLLC  
April 28, 2015

**JESSAMINE-SOUTH ELKHORN WATR DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
for the year ended December 31, 2014**

---

Federal Grantor Program Title	Federal CFDA Number	Pass Through Contract Number	Federal Expenditures
United States Environmental Protection Agency Passed-through Kentucky Infrastructure Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	F07-02	\$ <u>816,642</u>
Total federal financial assistance			\$ <u>816,642</u>

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Jessamine-South Elkhorn Water District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended December 31, 2014**

---

**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses  Yes  No

Non-compliance material to financial statements noted  Yes  No

Federal Awards:

Internal control over major programs:

Material weaknesses identified  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses  Yes  None Reported

Type of auditor's report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

**Major Programs:**

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as a low-risk auditee?  Yes  No

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

**2014-001 – Internal Control Over Financial Reporting**

**Criteria:**

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

**Condition:**

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

**Cause:**

The District transitioned financial reporting responsibilities to a new office manager during November 2014. Due to the transition, internal control procedures were not established timely to enable the new office manager to prepare the financial statements in conformity with generally accepted accounting principles.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended December 31, 2014  
(CONTINUED)**

---

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS (CONTINUED)**

**2014-001 – Internal Control Over Financial Reporting (continued)**

**Effect:**

Numerous material adjustments were necessary to prepare the financial statements in conformity with generally accepted accounting principles.

**Recommendation:**

The District should strive to strengthen the financial reporting system and more closely adhere to governmental accounting practices. Transactions should be recorded in the appropriate funds and closing entries should be posted to all funds prior to initiation of the audit.

**RESPONSE:**

The District hopes to have corrected this finding for next year with the hiring of the current office manager.

**2014-002 – Segregation of Duties**

**Criteria:**

The District is required to have internal controls that are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties.

**Condition:**

The District lacks segregation of duties.

**Cause:**

The District has a limited number of office/accounting personnel.

**Effect:**

Segregation of duties has not been achieved to a satisfactory level.

**Recommendation:**

Although the size of the District's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. We recommend that the District perform the following procedures:

- Make a list of officer personnel and the accounting duties that they perform.
- Isolate any incompatible accounting functions that are the responsibility of one employee.
- Reassign responsibility for these duties or create a supervisory review of these functions.

**RESPONSE:**

The District will try to establish segregation of duties to the best of our ability.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**IV. PRIOR AUDIT FINDINGS**

NONE