

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

**FINANCIAL STATEMENTS
December 31, 2017**

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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 Jessamine-South Elkhorn Water District (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Jessamine-South Elkhorn Water District, as of December 31, 2017, 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 3–8 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 an opinion on the financial statements that collectively comprise Jessamine-South Elkhorn Water District's basic financial statements. The schedules of revenues and expenses – actual to budget are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The schedules of revenues and expenses – actual to budget 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.

Prior-year comparative information

We have previously audited the District's 2016 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated March 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2018, on our consideration of 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
Lexington, Kentucky
March 14, 2018

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 for the fiscal year ended December 31, 2017.

Jessamine-South Elkhorn Water District (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 \$17,142,529 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$17,105,871.
- 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 funds reported a total ending fund balance of \$17,142,529 this year. This compares to the prior year ending fund balance of \$17,105,871 showing an increase of \$36,658 during the current year.
- At the end of the current fiscal year, unrestricted fund balance for the District was \$405,929 or 11% of the total District expenditures and 13% of total District revenues.
- The liabilities for the District in the current year were \$8,848,874. Prior year liabilities were \$8,271,425.

- 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 2,995 water and 767 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 (business-type) 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.

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 and sewer divisions:

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 and Repairs and Maintenance Reserve Funds – 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.

Debt Service and Bond and Interest Fund – The District maintains these funds to meet requirements in the bond agreements that sinking fund and reserve accounts be maintained for the purpose of paying debt obligations as they become due.

Construction Fund – This fund is used to construct additions, extensions, and improvements other than those of the Depreciation Fund. The District segregates bond proceeds that are restricted for use on capital projects in a separate account.

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 \$17,142,529. This is an increase of \$36,658 from last year's net position of \$17,105,871. The following table provides a summary of the District's net position:

	Combined Activities		Amount	Percent
	12/31/2017	12/31/2016	Change	Change
Assets				
Current and Other Assets	\$ 632,454	\$ 783,107	\$ (150,653)	-19.24%
Non-current Assets	1,148,520	1,043,625	104,895	10.01%
Capital Assets, Net	24,210,429	23,550,564	659,865	2.03%
Total Assets	25,991,403	25,377,296	614,107	2.42%
Liabilities				
Current and Other Liabilities	226,525	217,551	8,974	4.12%
Current Long-term Debt	325,689	273,121	52,568	19.25%
Non-current Long-term Debt	8,296,660	7,780,753	515,907	6.63%
Total Liabilities	8,848,874	8,271,425	577,449	6.98%
Net Position				
Net Investment in Capital Assets	15,588,080	15,496,690	91,390	0.59%
Restricted	689,579	615,760	73,819	11.99%
Unrestricted-Unreserved	405,929	565,556	(159,627)	-28.22%
Unrestricted-Board Designated Depreciation Reserves	458,941	427,865	31,076	7.26%
TOTAL NET POSITION	\$ 17,142,529	\$ 17,105,871	\$ 36,658	0.21%

The District's overall financial position (net position) increased \$36,658 during fiscal year 2017.

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 and liabilities of the District have increased primarily due to debt drawdowns that were used for construction of water and sewer assets in the area.

Total revenues during the current fiscal year decreased \$30,636 from the revenues during the prior year.

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

	Combined Activities		Amount Change	Percent Change
	12/31/2017	12/31/2016		
General Revenues				
Water and Sewer Sales	\$ 2,967,318	\$ 2,955,355	\$ 11,963	0.40%
Other Revenues	103,031	145,630	(42,599)	-29.25%
Total Revenues	<u>3,070,349</u>	<u>3,100,985</u>	<u>(30,636)</u>	-0.99%
Operating Expenses	<u>3,289,660</u>	<u>3,287,484</u>	<u>2,176</u>	0.07%
Net Operating Income	(219,311)	(186,499)	(32,812)	-17.59%
Other Income	2,996	156,545	153,549	98.09%
Gain (loss) on asset disposal	4,500	(566)	5,066	895.05%
Other Expenses	(288,966)	(267,067)	(21,899)	8.20%
Subtotal Other Income/Expenses	<u>(500,781)</u>	<u>(297,587)</u>	<u>(203,194)</u>	-68.28%
Connection Fees & Construction	76,395	107,636	(31,241)	-29.02%
Capital Contributions	461,044	664,010	(202,966)	-30.57%
Governmental Construction				
Grants	-	1,325,201	(1,325,201)	-100%
Subtotal Capital Income	<u>537,439</u>	<u>2,096,847</u>	<u>(1,559,408)</u>	-74.37%
Change in Net Assets	36,658	1,799,260	(1,762,602)	-97.96%
Net Assets Beginning of Year	<u>17,105,871</u>	<u>15,306,611</u>	<u>1,799,260</u>	11.75%
Net Assets End of Year	<u>\$ 17,142,529</u>	<u>\$ 17,105,871</u>	<u>\$ 36,658</u>	0.21%

As portrayed above and discussed earlier, the District is heavily reliant on revenues from sales of water and sewer services which provides 96.6% and 95.3% of the District's operating revenues in fiscal years 2017 and 2016, respectively.

Financial Analysis of the District's Funds

Proprietary (Enterprise) Funds

The year-end total of net position for the combined funds was \$17,142,529. Of the year-end total, \$405,929 is unreserved for operations, \$458,941 for board designated projects, \$689,579 restricted for either debt service or construction, and \$15,588,080 totals net investment in capital assets.

The total ending fund balances of the combined funds shows an increase of \$36,658 from the prior year.

Budgetary Highlights

The 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 \$739,039 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 \$76,395. Other financing of capital assets were provided by grants, loans and operating funds. During 2017, the District also received conveyed fixed assets totaling \$461,044. Net capital assets increased by \$659,865 during the year.

At the end of the year, the District had long-term debt consisting of bond issues, notes payable, and construction loans. During the current year the District drew \$845,594 in loan funds. Repayment of \$277,119 in principal was made on other debt. Interest expense paid during the year on long-term debt was \$288,966.

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 replaced five miles of deteriorated and leaking gray pipe that was installed in the early 1970's. The construction of a 750,000 gallon elevated storage tank in the north end of Jessamine County was completed in 2017. We replaced 4" water pipe main with 12" water pipe main on Highway 29 to better serve our customers. We put in new 6" pipe to serve our customers on Cook Lane.

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

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2017

	<u>Water Division</u>	<u>Sewer Division</u>	<u>Total Activities</u>	<u>2016 Totals</u>
ASSETS				
Current assets				
Cash	\$ 431,595	\$ 48,574	\$ 480,169	\$ 678,047
Accounts receivable customers, net	68,221	56,026	124,247	82,858
Other receivables	8,133	459	8,592	3,782
Due (to) from other funds	521,906	(521,906)	-	-
Prepaid expenses	<u>19,446</u>	<u>-</u>	<u>19,446</u>	<u>18,420</u>
Total current assets	<u>1,049,301</u>	<u>(416,847)</u>	<u>632,454</u>	<u>783,107</u>
Restricted assets				
Cash	696,493	319,152	1,015,645	911,305
Certificates of deposit	<u>132,875</u>	<u>-</u>	<u>132,875</u>	<u>132,320</u>
Total restricted assets	<u>829,368</u>	<u>319,152</u>	<u>1,148,520</u>	<u>1,043,625</u>
Capital assets				
Property, plant and equipment	22,128,167	10,853,278	32,981,445	29,327,572
Less: accumulated depreciation	(6,985,992)	(1,808,770)	(8,794,762)	(8,072,755)
Construction in progress	<u>1,326</u>	<u>22,420</u>	<u>23,746</u>	<u>2,295,747</u>
Total capital assets	<u>15,143,501</u>	<u>9,066,928</u>	<u>24,210,429</u>	<u>23,550,564</u>
Total assets	<u>\$ 17,022,170</u>	<u>\$ 8,969,233</u>	<u>\$ 25,991,403</u>	<u>\$ 25,377,296</u>
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable	\$ 19,187	\$ 53,302	\$ 72,489	\$ 71,616
Taxes payable	9,939	-	9,939	10,587
Customer deposits	8,095	53,617	61,712	61,962
Accrued interest payable	55,852	26,533	82,385	73,386
Current portion of notes payable	226,389	-	226,389	199,921
Current portion of bonds payable	<u>78,000</u>	<u>21,300</u>	<u>99,300</u>	<u>73,200</u>
Total current liabilities	<u>397,462</u>	<u>154,752</u>	<u>552,214</u>	<u>490,672</u>
Long-term debt				
Notes payable	4,694,360	-	4,694,360	4,419,006
Bonds payable	<u>2,207,000</u>	<u>1,395,300</u>	<u>3,602,300</u>	<u>3,361,747</u>
Total long-term debt	<u>6,901,360</u>	<u>1,395,300</u>	<u>8,296,660</u>	<u>7,780,753</u>
Net position				
Net investment in capital assets	7,937,752	7,650,328	15,588,080	15,496,690
Restricted for debt service	114,070	274,920	388,990	354,063
Restricted for capital projects	123,482	44,232	167,714	129,377
Restricted for depreciation and maintenance	132,875	-	132,875	132,320
Unrestricted - board designated	458,941	-	458,941	427,865
Unrestricted	<u>956,228</u>	<u>(550,299)</u>	<u>405,929</u>	<u>565,556</u>
Total net position	<u>9,723,348</u>	<u>7,419,181</u>	<u>17,142,529</u>	<u>17,105,871</u>
Total liabilities and net position	<u>\$ 17,022,170</u>	<u>\$ 8,969,233</u>	<u>\$ 25,991,403</u>	<u>\$ 25,377,296</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, 2017

	Water Division	Sewer Division	Total Activities	2016 Totals
OPERATING INCOME				
Water sales	\$ 2,198,050	\$ -	\$ 2,198,050	\$ 2,304,149
Sewer sales	-	769,268	769,268	651,206
Other revenue	<u>80,793</u>	<u>22,238</u>	<u>103,031</u>	<u>145,630</u>
 Total operating income	 <u>2,278,843</u>	 <u>791,506</u>	 <u>3,070,349</u>	 <u>3,100,985</u>
OPERATING EXPENSES				
Water purchases	1,119,713	-	1,119,713	1,205,236
Sewer usage	-	458,954	458,954	409,411
Operation	337,593	182,209	519,802	497,839
Maintenance	115,524	97,044	212,568	204,213
General and administrative	<u>156,457</u>	<u>83,127</u>	<u>239,584</u>	<u>259,466</u>
 Total operating expense	 <u>1,729,287</u>	 <u>821,334</u>	 <u>2,550,621</u>	 <u>2,576,165</u>
 Operating income (loss) before depreciation	 549,556	 (29,828)	 519,728	 524,820
Depreciation expense	<u>(472,700)</u>	<u>(266,339)</u>	<u>(739,039)</u>	<u>(711,319)</u>
 OPERATING INCOME (LOSS)	 76,856	 (296,167)	 (219,311)	 (186,499)
Non-operating income (expenses)				
Legal settlement income	-	-	-	154,839
Gain (loss) on asset disposal	-	4,500	4,500	(566)
Interest income	2,616	380	2,996	1,706
Interest expense	<u>(235,864)</u>	<u>(53,102)</u>	<u>(288,966)</u>	<u>(267,067)</u>
 (LOSS) BEFORE CAPITAL CONTRIBUTIONS	 (156,392)	 (344,389)	 (500,781)	 (297,587)
Capital contributions				
Customer contributions	-	-	-	53,679
Capital grants	-	-	-	1,325,201
Capital contributions	9,798	451,246	461,044	664,010
Tap fees	<u>21,203</u>	<u>55,192</u>	<u>76,395</u>	<u>53,957</u>
 Change in net position	 (125,391)	 162,049	 36,658	 1,799,260
Net position, beginning of year	<u>9,848,739</u>	<u>7,257,132</u>	<u>17,105,871</u>	<u>15,306,611</u>
 NET POSITION, END OF YEAR	 <u>\$ 9,723,348</u>	 <u>\$ 7,419,181</u>	 <u>\$ 17,142,529</u>	 <u>\$ 17,105,871</u>

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

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended December 31, 2017

	Water Division	Sewer Division	Total Activities	2016 Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 2,254,135	\$ 770,015	\$ 3,024,150	\$ 3,243,751
Payments to suppliers	(1,364,482)	(591,369)	(1,955,851)	(1,987,251)
Payments for employee services and benefits	(439,284)	(156,537)	(595,821)	(571,434)
Net cash provided by operating activities	<u>450,369</u>	<u>22,109</u>	<u>472,478</u>	<u>685,066</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Retirement of note principal	(256,419)	(20,700)	(277,119)	(220,560)
Borrowings under long-term obligations	845,594	-	845,594	246,734
Interest paid	(226,522)	(53,445)	(279,967)	(269,638)
Capital grants	-	-	-	1,325,201
Customer contributions and tap fees	21,203	55,192	76,395	111,146
Purchase of fixed assets	(861,108)	(72,253)	(933,361)	(1,596,856)
Net cash (used in) capital and related financing activities	<u>(477,252)</u>	<u>(91,206)</u>	<u>(568,458)</u>	<u>(403,973)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Invested in certificates of deposit	(555)	-	(555)	(515)
Interest income	2,617	380	2,997	1,708
Net cash provided by investing activities	<u>2,062</u>	<u>380</u>	<u>2,442</u>	<u>1,193</u>
NET INCREASE (DECREASE) IN CASH	(24,821)	(68,717)	(93,538)	282,286
Cash, beginning of year	<u>1,152,909</u>	<u>436,443</u>	<u>1,589,352</u>	<u>1,307,066</u>
CASH, END OF YEAR	<u>\$ 1,128,088</u>	<u>\$ 367,726</u>	<u>\$ 1,495,814</u>	<u>\$ 1,589,352</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 76,856	\$ (296,167)	\$ (219,311)	\$ (186,499)
Legal settlement income	-	-	-	154,839
Noncash items included in operating income				
Depreciation	472,700	266,339	739,039	711,319
Changes in assets and liabilities				
(Increase) decrease in accounts receivables	(20,357)	(21,032)	(41,389)	(11,034)
(Increase) decrease in other receivables	(4,351)	(459)	(4,810)	(1,039)
(Increase) decrease in due to (from) other funds	(74,691)	74,691	-	-
(Increase) decrease in prepaid expenses	(1,026)	-	(1,026)	744
Increase (decrease) in accounts payable	1,886	(1,013)	873	24,043
Increase (decrease) in other payables	(648)	-	(648)	1,074
Increase (decrease) in customer deposits	-	(250)	(250)	(8,381)
Net cash provided by operating activities	<u>\$ 450,369</u>	<u>\$ 22,109</u>	<u>\$ 472,478</u>	<u>\$ 685,066</u>
Supplemental disclosure of non-cash transactions				
Exchange on nonmonetary assets - trade-in allowance	<u>\$ -</u>	<u>\$ 4,500</u>	<u>\$ 4,500</u>	<u>\$ 2,000</u>
Contributed capital	<u>\$ 9,798</u>	<u>\$ 451,246</u>	<u>\$ 461,044</u>	<u>\$ 664,010</u>
Cash and cash equivalents consist of the following:				
Unrestricted cash	\$ 431,595	\$ 48,574	\$ 480,169	\$ 678,047
Restricted cash	<u>696,493</u>	<u>319,152</u>	<u>1,015,645</u>	<u>911,305</u>
Total cash and cash equivalents	<u>\$ 1,128,088</u>	<u>\$ 367,726</u>	<u>\$ 1,495,814</u>	<u>\$ 1,589,352</u>

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

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 and sewer 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, 2017 totaled \$4,640.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 that are 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 March 14, 2018, 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, 2017, 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, 2017 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District's policy will attempt to match its investments with anticipated cash flow requirements

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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, 2017. 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.

<u>Type of Deposit</u>	<u>Category</u>			<u>Total Bank Amount</u>	<u>Total Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash	\$ 1,686,125	\$ -	\$ -	\$ 1,686,125	\$ 1,495,814
Certificates of deposit	<u>132,875</u>	<u>-</u>	<u>-</u>	<u>132,875</u>	<u>132,875</u>
	<u>\$ 1,819,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,819,000</u>	<u>\$ 1,628,689</u>

The following cash and certificate of deposit balances as shown on the Statement of Net Position at December 31, 2017:

	<u>Unrestricted</u>	<u>Board Designated</u>	<u>Restricted</u>	<u>Total</u>
Revenue fund	\$ 215,610	\$ 29,749	\$ -	\$ 245,359
Operation and maintenance fund	66,050	-	-	66,050
Bond and interest fund- water	-	-	114,070	114,070
Depreciation and maintenance fund	-	-	132,875	132,875
Construction fund- water	<u>149,935</u>	<u>429,192</u>	<u>123,482</u>	<u>702,609</u>
Water total	<u>431,595</u>	<u>458,941</u>	<u>370,427</u>	<u>1,260,963</u>
Construction fund- sewer	-	-	44,232	44,232
Debt service reserve- sewer	-	-	274,920	274,920
Sewer accounts	<u>48,574</u>	<u>-</u>	<u>-</u>	<u>48,574</u>
Sewer total	<u>48,574</u>	<u>-</u>	<u>319,152</u>	<u>367,726</u>
Total	<u>\$ 480,169</u>	<u>\$ 458,941</u>	<u>\$ 689,579</u>	<u>\$ 1,628,689</u>

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

3. CAPITAL ASSETS

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

	Balance 12/31/2016	Additions	Disposals	Balance 12/31/2017
Capital assets not depreciated:				
Construction in progress - water	\$ 2,258,228	\$ 861,223	\$ (3,118,125)	\$ 1,326
Construction in progress - sewer	<u>37,519</u>	<u>76,458</u>	<u>(91,557)</u>	<u>22,420</u>
Total not depreciated	<u>2,295,747</u>	<u>937,681</u>	<u>(3,209,682)</u>	<u>23,746</u>
Capital assets being depreciated:				
Utility plant/distribution system	18,456,140	3,119,025	-	21,575,165
Sewer collection	10,244,319	518,344	-	10,762,663
Building	450,000	7,697	-	457,697
Operating equipment and furniture	12,694	1,085	-	13,779
Transportation - water	31,405	-	-	31,405
Transportation - sewer	17,032	24,410	(17,032)	24,410
Equipment- sewer	64,830	344	-	65,174
Communication - water	50,121	-	-	50,121
Communication - sewer	<u>1,031</u>	<u>-</u>	<u>-</u>	<u>1,031</u>
Total depreciated	<u>29,327,572</u>	<u>3,670,905</u>	<u>(17,032)</u>	<u>32,981,445</u>
Accumulated depreciation - water	(6,513,292)	(472,700)	-	(6,985,992)
Accumulated depreciation - sewer	<u>(1,559,463)</u>	<u>(266,339)</u>	<u>17,032</u>	<u>(1,808,770)</u>
Total accumulated depreciation	<u>(8,072,755)</u>	<u>(739,039)</u>	<u>17,032</u>	<u>(8,794,762)</u>
Net depreciable assets	<u>21,254,817</u>	<u>2,931,866</u>	<u>-</u>	<u>24,186,683</u>
Total capital assets, net	<u>\$ 23,550,564</u>	<u>\$ 3,869,547</u>	<u>\$ (3,209,682)</u>	<u>\$ 24,210,429</u>

For the year ended December 31, 2017, depreciation expense totaled \$739,039.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

4. LONG-TERM DEBT

The following is a summary of the bonds outstanding for the District for the year ended December 31, 2017.

Series 2000B Revenue Bonds, annual principal and interest payments at 5.125% through January 2039.	\$ 315,000
Series 2009A Revenue Bonds, annual principal and semi-annual interest payments at 2.625% through January 2050.	220,100
Series 2008B Revenue Bonds, annual principal and semi-annual interest payments at 4.375% through January 2050.	491,500
Series 2008A Revenue Bonds, annual principal and semi-annual interest payments at 4.25% through January 2050.	705,000
Series 2012C Revenue Bonds, annual principal and semi-annual interest payments at a variable interest rate between 2.15% and 4.15% through January 2039.	1,500,000
Series 2016D Revenue Bonds, annual principal and semi-annual interest payments at a variable interest rate between 3.60% and 5.10% through January 2031.	<u>470,000</u>
Total	3,701,600
Less: current portion of bonds	<u>(99,300)</u>
Long-term bonds	<u>\$ 3,602,300</u>

The following is a summary of the notes outstanding for the District for the year ended December 31, 2017.

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.	\$ 242,829
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.	359,209
2007 Kentucky Infrastructure Authority Revolving Loan F07-02, semi-annual principal and interest payments at 3% through 2033.	1,438,476
2013 KIA Kentucky Infrastructure Authority Revolving Loan F11-12, semi-annual principal and interest payments at 3% through 2036.	<u>2,880,235</u>
Total	4,920,749
Less: current portion of notes	<u>(226,389)</u>
Long-term notes	<u>\$ 4,694,360</u>

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

4. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all bonds outstanding as of December 31, 2017 are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 99,300	\$ 148,275	\$ 247,575
2019	105,400	144,524	249,924
2020	112,000	140,517	252,517
2021	113,100	136,337	249,437
2022	119,800	132,111	251,911
2023-2027	656,700	587,669	1,244,369
2028-2032	753,800	444,866	1,198,666
2033-2037	717,800	301,431	1,019,231
2038-2042	495,500	154,648	650,148
2043-2047	310,200	83,323	393,523
2048-2050	<u>218,000</u>	<u>18,007</u>	<u>236,007</u>
	<u>\$ 3,701,600</u>	<u>\$ 2,291,708</u>	<u>\$ 5,993,308</u>

The annual requirements to amortize all notes payable outstanding as of December 31, 2017 are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 226,389	\$ 147,436	\$ 373,824
2019	766,681	140,566	907,248
2020	204,425	116,308	320,733
2021	210,604	110,130	320,734
2022	216,969	103,764	320,733
2023-2027	1,187,270	416,397	1,603,667
2028-2032	1,377,877	225,793	1,603,670
2033-2036	<u>730,534</u>	<u>41,845</u>	<u>772,379</u>
	<u>\$ 4,920,749</u>	<u>\$ 1,302,239</u>	<u>\$ 6,222,988</u>

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

	December 31, 2016	Additions	Retirements	December 31, 2017	Due Within One Year
Bonds payable	\$ 3,434,947	\$ 339,853	\$ (73,200)	\$ 3,701,600	\$ 99,300
Notes payable	<u>4,618,927</u>	<u>505,741</u>	<u>(203,919)</u>	<u>4,920,749</u>	<u>226,389</u>
Long-term debt	<u>\$ 8,053,874</u>	<u>\$ 845,594</u>	<u>\$ (277,119)</u>	<u>\$ 8,622,349</u>	<u>\$ 325,689</u>

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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.

Bond Fund Principal and Interest Sinking Fund - The District deposits each month an amount equal to one sixth (1/6) of the amount of interest becoming due on all bonds outstanding with Kentucky Rural Water Finance Corporation on the next ensuing semiannual interest payment date, plus one twelfth (1/12) of the amount of principal of the bonds outstanding which are maturing on the next ensuing annual principal payment date. As of December 31, 2017, 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, 2017, 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, 2017, 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 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, 2017, \$15,156 has been accumulated, exceeding the required amount.

Construction Fund - This fund is 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. As of December 31, 2017, the District has \$123,482 in restricted funds from bond sales related to an ongoing construction project.

Repair and Maintenance Reserve Fund - This fund is used to hold funds in reserve so that they may be spent on the repair and maintenance of the projects constructed with debt from the Kentucky Infrastructure Authority. The debt agreements call for an annual allocation to the reserve until a set limit has been reached. As of December 31, 2017, \$117,719 has been accumulated, exceeding the required amount.

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, 2017, the District contributed \$20,293 towards the employee retirement program.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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. OPERATING LEASE

During 2017, the District leased space on existing property and equipment to allow for the mounting of wireless internet transmission and receiving equipment, for the purpose of providing wireless internet to the public. The lease had an initial term that ended in February 2017 but was extended through February 2018 and calls for monthly payments of \$1,500. During the year ended December 31, 2017, the District received payments of \$18,000 under the lease agreement. Future minimum lease payments to be received under the agreement are \$3,000, as of December 31, 2017. The lease agreement was extended for an additional two year period in January 2018.

SUPPLEMENTARY INFORMATION

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET - WATER DIVISION
for the year ended December 31, 2017

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Water sales	\$ 2,150,000	\$ 2,150,000	\$ 2,198,050	\$ 48,050
Other revenues	<u>87,292</u>	<u>87,292</u>	<u>80,793</u>	<u>(6,499)</u>
Total operating revenue	<u>2,237,292</u>	<u>2,237,292</u>	<u>2,278,843</u>	<u>41,551</u>
OPERATING EXPENSES				
Water purchases	1,050,000	1,050,000	1,119,713	69,713
Operation	292,996	292,996	337,593	44,597
Maintenance	170,647	170,647	115,524	(55,123)
General and administrative	<u>150,198</u>	<u>150,198</u>	<u>156,457</u>	<u>6,259</u>
Total operating expense	<u>1,663,841</u>	<u>1,663,841</u>	<u>1,729,287</u>	<u>65,446</u>
Operating income before depreciation	573,451	573,451	549,556	(23,895)
Depreciation expense	<u>(440,333)</u>	<u>(440,333)</u>	<u>(472,700)</u>	<u>(32,367)</u>
OPERATING INCOME	133,118	133,118	76,856	(56,262)
Non-operating income (expenses)				
Interest income	1,554	1,554	2,616	1,062
Interest expense	<u>(170,726)</u>	<u>(170,726)</u>	<u>(235,864)</u>	<u>(65,138)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(36,054)	(36,054)	(156,392)	(120,338)
Capital contributions				
Capital contributions	-	-	9,798	9,798
Tap fees	<u>-</u>	<u>-</u>	<u>21,203</u>	<u>21,203</u>
Change in net position	<u>\$ (36,054)</u>	<u>\$ (36,054)</u>	<u>\$ (125,391)</u>	<u>\$ (89,337)</u>

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET - SEWER DIVISION
for the year ended December 31, 2017

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer sales	\$ 600,000	\$ 600,000	\$ 769,268	\$ 169,268
Other revenue	<u>76,062</u>	<u>76,062</u>	<u>22,238</u>	<u>(53,824)</u>
Total operating revenue	<u>676,062</u>	<u>676,062</u>	<u>791,506</u>	<u>115,444</u>
OPERATING EXPENSES				
Sewer usage	300,000	300,000	458,954	158,954
Operation	135,089	135,089	182,209	47,120
Maintenance	90,749	90,749	97,044	6,295
General and administrative	<u>124,139</u>	<u>124,139</u>	<u>83,127</u>	<u>(41,012)</u>
Total operating expense	<u>649,977</u>	<u>649,977</u>	<u>821,334</u>	<u>171,357</u>
Operating income (loss) before depreciation	26,085	26,085	(29,828)	(55,913)
Depreciation expense	<u>(207,005)</u>	<u>(207,005)</u>	<u>(266,339)</u>	<u>(59,334)</u>
OPERATING (LOSS)	(180,920)	(180,920)	(296,167)	(115,247)
Non-operating income (expenses)				
Gain on asset disposal	-	-	4,500	4,500
Interest income	164	164	380	216
Interest expense	<u>(82,093)</u>	<u>(82,093)</u>	<u>(53,102)</u>	<u>28,991</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(262,849)	(262,849)	(344,389)	(81,540)
Capital contributions				
Capital contributions	-	-	451,246	451,246
Tap fees	<u>-</u>	<u>-</u>	<u>55,192</u>	<u>55,192</u>
Change in net position	<u>\$ (262,849)</u>	<u>\$ (262,849)</u>	<u>\$ 162,049</u>	<u>\$ 424,898</u>



**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, 2017, and the related notes to the financial statements, which collectively comprise the Jessamine-South Elkhorn Water District's basic financial statements, and have issued our report thereon dated March 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Jessamine-South Elkhorn Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Jessamine-South Elkhorn Water District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2017-001 and 2017-002).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Management's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

RFH

RFH, PLLC
Lexington, Kentucky
March 14, 2018

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2017

FINDINGS:

2017-001 – Internal Control over Financial Reporting (recurring)

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:

The District does not have the internal control procedures required to draft the financial statements in conformity with generally accepted accounting principles.

Cause:

The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including disclosures.

Effect:

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.

Recommendation:

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

2017-002 – Segregation of Duties (recurring)

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.

**JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
December 31, 2017**

2017-002 – Segregation of Duties (continued)

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. In addition, improved oversight by the District's Board of Commissioners can serve as a mitigating control that can reduce the risk of inadequately separated duties. 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.
- Require approval of non-routine transactions, such as customer billing adjustments, by the District's Board of Commissioners.

RESPONSE:

The District will try to establish segregation of duties and related mitigating controls to the best of our ability.