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JESSAMINE – SOUTH ELKHORN WATER DISTRICT
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2021

*BESTEN & DIERUF, PLLC
CERTIFIED PUBLIC ACCOUNTANTS*

CONTENTS

MANAGEMENT’S DISCUSSION AND ANALYSIS	PAGE 3
INDEPENDENT AUDITORS’ REPORT	8
FINANCIAL STATEMENTS:	
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements	13
SUPPLEMENTAL INFORMATION:	
Schedules of Revenues and Expenses – Actual to Budget	22
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 <i>GOVERNMENT AUDITING STANDARDS</i>	24
SCHEDULE OF FINDINGS AND RESPONSES	26

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 year ended December 31, 2021.

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 \$17,186,967 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$17,286,462.
- 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 \$17,186,967 this year. This compares to the prior year ending fund balance of \$17,286,462 showing a decrease of \$99,495 during the current year.
- At the end of the current fiscal year, unrestricted fund balance for the District was \$1,455,035 or 38% of the total District expenditures and 39% of total District revenues.
- The liabilities for the District in the current year were \$7,469,688. Prior year liabilities were \$7,892,548.
- Plant assets primarily include transmission lines for water and sewer, pump stations, holding tanks, pump vaults, a building, and vehicles.
- Revenues are provided by 3,164 water and 1097 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 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 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 \$17,186,967. This is a decrease of \$99,495 from last year's net position of \$17,286,462. The following table provides a summary of the District's net position:

	Combined Activities		Amount	Percent
	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>Change</u>
Assets				
Current and Other Assets	\$ 1,690,336	\$ 1,453,876	\$ 236,460	16.26%
Non-current Assets	542,011	832,622	(290,611)	-34.90%
Capital Assets, Net	<u>22,424,308</u>	<u>22,892,512</u>	<u>(468,204)</u>	-2.05%
Total Assets	24,656,655	25,179,010	(522,355)	-2.07%
Liabilities				
Current and Other Liabilities	233,497	280,273	(46,776)	-16.69%
Current Long-term Debt	357,573	359,969	(2,396)	-0.67%
Non-current Long-term Debt	<u>6,876,814</u>	<u>7,252,306</u>	<u>(375,492)</u>	-5.18%
Total Liabilities	7,467,884	7,892,548	(424,664)	-5.38%
Net Position				
Net Investment in Capital Assets	15,189,921	15,280,237	(90,316)	-0.59%
Restricted	381,111	705,940	(324,829)	-46.01%
Unrestricted-Unreserved	1,455,035	1,173,603	281,432	23.98%
Unrestricted-Board Designated Depreciation Reserves	<u>160,900</u>	<u>126,682</u>	<u>34,218</u>	27.01%
TOTAL NET POSITION	<u>\$ 17,186,967</u>	<u>\$ 17,286,462</u>	<u>\$ (99,495)</u>	-0.58%

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 increases in cash from operations while liabilities have decreased as primarily from debt payment and no additions of debt.

Total revenues, exclusive of capital income, during the current fiscal year increased \$132,393 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	Percent
	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>Change</u>
General Revenues				
Water and Sewer Sales	\$ 3,630,555	\$ 3,535,481	\$ 95,074	2.69%
Other Revenues	<u>120,800</u>	<u>81,593</u>	<u>39,207</u>	48.05%
Total Revenues	3,751,355	3,617,074	134,281	3.71%
Operating Expenses	<u>3,589,900</u>	<u>3,484,243</u>	<u>105,657</u>	3.03%
Net Operating Income	161,455	132,831	28,624	21.55%
Interest Income	1,344	3,232	(1,888)	-58.42%
Gain (loss) On Asset Disposal	(203,918)	-	(203,918)	-100.00%
Other Expenses	<u>(234,505)</u>	<u>(271,354)</u>	<u>36,849</u>	-13.58%
(Loss) Before Capital Contributions	(275,624)	(135,291)	(140,333)	103.73%
Connection Fees & Construction Capital Contributions	<u>58,214</u>	<u>54,138</u>	<u>4,076</u>	7.53%
Subtotal Capital Income	176,129	599,804	(423,675)	-70.64%
Change in Net Assets	(99,495)	464,513	(564,008)	-121.42%
Net Assets Beginning of Year	<u>17,286,462</u>	<u>16,821,949</u>	<u>464,513</u>	2.76%
Net Assets End of Year	<u>\$ 17,186,967</u>	<u>\$ 17,286,462</u>	<u>\$ (99,495)</u>	-0.58%

As portrayed above and discussed earlier, the District is heavily reliant on revenues from sales of water and sewer services which provides 96.8% and 97.7% of the District's operating revenues in fiscal years 2021 and 2020, respectively.

Financial Analysis of the District's Funds

Proprietary (Enterprise) Funds

The year-end total of net position for the combined funds was \$17,186,967. Of the year-end total, \$1,455,035 is unrestricted and available for operations, \$160,900 for board designated projects, \$381,111 restricted for either debt service or construction, and \$15,189,921 totals net investment in capital assets.

The total ending fund balances of the combined funds shows a decrease of \$99,495 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 \$859,990 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 \$58,214. Other financing of capital assets was provided by operating funds. During 2021, the District also received conveyed fixed assets totaling \$117,915. Net capital assets decreased by \$468,204 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 did not draw any new loan funds but refinanced a revenue bond. The total amount of the new bond issuance was \$2,370,000 which had a discount of \$52,323. Repayment of \$2,798,407 in principal was made on other debt. Interest paid during the year on long-term debt was \$268,454.

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. The District also expects 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. The District also intends 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 its 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. The District replaced 4" water pipe main with 12" water pipe main on Highway 29 to better serve our customers. The District put in new 6" pipe to serve our customers on Cook Lane. The District started installing automatic read meters going forward until all old meters are replaced.

The District purchases the majority of its water from the City of Nicholasville 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 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

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

We have audited the accompanying financial statements of Jessamine-South Elkhorn Water District (the District) of the city of Nicholasville, Kentucky as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Jessamine-South Elkhorn Water District and do not purport to, and do not present fairly the financial position of the City of Nicholasville, Kentucky, as of December 31, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 3-7 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 schedules of revenues and expenses- actual to budget are presented for purposes 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Lexington, Kentucky
March 11, 2022

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2021

	Water Division	Sewer Division	Total Activities
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,404,204	\$ 176,742	\$ 1,580,946
Accounts receivable customers, net	41,119	40,275	81,394
Other receivables	19,490	-	19,490
Due (to) from other funds	488,386	(488,386)	-
Prepaid expenses	8,506	-	8,506
Total Current Assets	1,961,705	(271,369)	1,690,336
Restricted and Designated Assets			
Cash and cash equivalents	307,818	98,160	405,978
Certificates of deposit	136,033	-	136,033
Total Restricted and Designated Assets	443,851	98,160	542,011
Capital Assets			
Property, plant and equipment	23,054,099	11,129,634	34,183,733
Less: accumulated depreciation	(9,029,330)	(2,940,736)	(11,970,066)
Construction in progress	26,291	184,350	210,641
Total Capital Assets	14,051,060	8,373,248	22,424,308
Total Assets	\$ 16,456,616	\$ 8,200,039	\$ 24,656,655
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts payable	\$ 81,670	\$ 57,070	\$ 138,740
Taxes payable	10,815	-	10,815
Customer deposits	7,983	50,992	58,975
Accrued interest payable	24,967	-	24,967
Current portion of discount on Bond refinance	1,804	-	1,804
Current portion of notes payable	252,573	-	252,573
Current portion of bonds payable	105,000	-	105,000
Total Current Liabilities	484,812	108,062	592,874
Long-Term Liabilities			
Discount on Bond refinance	50,519	-	50,519
Notes payable	3,728,195	-	3,728,195
Bonds payable	2,900,500	197,600	3,098,100
Total Long-Term Liabilities	6,679,214	197,600	6,876,814
Total Liabilities	7,164,026	305,662	7,469,688
Net Position			
Net investment in capital assets	7,014,273	8,175,648	15,189,921
Restricted for debt service	40,406	64,723	105,129
Restricted for capital projects	-	33,437	33,437
Restricted for depreciation and maintenance	242,545	-	242,545
Unrestricted - board designated	160,900	-	160,900
Unrestricted	1,834,466	(379,431)	1,455,035
Total Net Position	9,292,590	7,894,377	17,186,967
Total Liabilities and Net Position	\$ 16,456,616	\$ 8,200,039	\$ 24,656,655

See Independent Auditors' Report and Notes to Financial Statements.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021

	Water Division	Sewer Division	Total Activities
OPERATING REVENUE			
Water sales	\$ 2,512,854	\$ -	\$ 2,512,854
Sewer sales	-	1,117,701	1,117,701
Other revenue	89,181	31,619	120,800
Total Operating Revenue	2,602,035	1,149,320	3,751,355
OPERATING EXPENSES			
Water purchases	810,891	-	810,891
Sewer usage	-	695,909	695,909
Operation	248,080	186,409	434,489
Maintenance	403,600	118,400	522,000
General and administrative	159,315	107,306	266,621
Total Operating Expenses	1,621,886	1,108,024	2,729,910
Operating Income (Loss) Before Depreciation	980,149	41,296	1,021,445
Depreciation expense	(573,456)	(286,534)	(859,990)
Operating Income (LOSS)	406,693	(245,238)	161,455
Non-operating income (expenses)			
Gain (loss) on asset disposal	(203,918)	-	(203,918)
Interest income	1,141	203	1,344
Interest expense	(216,497)	(18,008)	(234,505)
Income (Loss) Before Capital Contributions	(12,581)	(263,043)	(275,624)
Capital Contributions			
Capital contributions	25,469	92,446	117,915
Tap fees	43,950	14,264	58,214
Total Capital Contributions	69,419	106,710	176,129
Change in Net Position	56,838	(156,333)	(99,495)
Net Position, Beginning of year	10,166,090	7,120,372	17,286,462
Transfers	(930,338)	930,338	-
Net Position, End of Year	\$ 9,292,590	\$ 7,894,377	\$ 17,186,967

See Independent Auditors' Report and Notes to Financial Statements.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Water Division	Sewer Division	Total Activities
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,626,501	\$ 1,180,365	\$ 3,806,866
Payments to suppliers	(1,358,828)	(938,640)	(2,297,468)
Payments for employee services and benefits	(267,511)	(176,304)	(443,815)
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,000,162	65,421	1,065,583
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Retirement of notes and bonds	(1,645,607)	(1,152,800)	(2,798,407)
Issuance of notes and bonds	2,370,000	-	2,370,000
Issuance of discount on bond refinancing	52,323	-	52,323
Interest paid	(225,130)	(43,324)	(268,454)
Customer contributions and tap fees	69,419	106,710	176,129
Purchase of fixed assets	(498,129)	(97,575)	(595,704)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	122,876	(1,186,989)	(1,064,113)
CASH FLOWS FROM INVESTING ACTIVITIES			
Invested in certificates of deposit	(235)	-	(235)
Interest income	1,141	203	1,344
NET CASH FLOWS FROM INVESTING ACTIVITIES	906	203	1,109
NET CHANGE IN CASH	1,123,944	(1,121,365)	2,579
TRANSFERS BETWEEN WATER AND SEWER	(930,338)	930,338	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,518,416	465,929	1,984,345
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,712,022	\$ 274,902	\$ 1,986,924
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 406,693	\$ (245,238)	\$ 161,455
Noncash items included in operating income:			
Depreciation	573,456	286,534	859,990
Changes in assets and liabilities:			
(Increase) decrease in accounts receivables	39,815	31,045	70,860
(Increase) decrease in other receivables	(15,349)	-	(15,349)
(Increase) decrease in due to (from) other funds	-	-	-
(Increase) decrease in prepaid expenses	1,454	-	1,454
Increase (decrease) in accounts payable	(6,684)	(5,745)	(12,429)
Increase (decrease) in taxes payable	127	-	127
Increase (decrease) in customer deposits	650	(1,175)	(525)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 1,000,162	\$ 65,421	\$ 1,065,583
Supplemental Disclosure of Non-Cash Transactions			
Contributed capital	\$ 25,469	\$ 92,446	\$ 117,915
Cash and cash equivalents consist of the following:			
Unrestricted cash and cash equivalents	\$ 1,404,204	\$ 176,742	\$ 1,580,946
Restricted cash and cash equivalents	307,818	98,160	405,978
TOTAL CASH AND CASH EQUIVALENTS	\$ 1,712,022	\$ 274,902	\$ 1,986,924

See Independent Auditors' Report and Notes to Financial Statements.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF 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 the 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, 2021 totaled \$4,640.

Property and Equipment

The District has not historically inventoried unsold water, nor accounted for unbilled water or sewer usage. 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. 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" represents amounts transferred between funds that are owed for operating and non-operating expenses. These amounts are not expected to be paid within one year.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ORGANIZATION AND ACCOUNTING POLICIES – continued

Use of Estimates

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

Recent Accounting Pronouncements

GASB has issued additional guidance that is not yet effective. The District is currently reviewing the provisions of the following GASB Statements to determine the impact of implementation in future periods.

- Statement No. 87: *Leases (2021)*
- Statement No. 89: *Accounting for Interest Cost Incurred Before The End of a Construction Period (2021)*
- Statement No. 91: *Conduit Debt Obligations (2022)*
- Statement No. 92: *Omnibus 2020 (2021)*

Date of Management's Review

The District has evaluated and considered the need to recognize or disclose subsequent events through March 11, 2022, 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, 2021, have not been evaluated by the District.

NOTE B – 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, 2021 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.

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, 2021. The categories of credit risk are defined as follows:

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

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE B – CASH AND INVESTMENTS - continued

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Bank Amount</u>	<u>Total Carrying Amount</u>
Cash and cash equivalents	\$ 2,031,561	\$ -	\$ -	\$ 2,031,561	\$ 1,986,924
Certificates of deposit	<u>136,033</u>	<u>-</u>	<u>-</u>	<u>136,033</u>	<u>136,033</u>
	<u>\$ 2,167,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,167,594</u>	<u>\$ 2,122,957</u>

The following presents the cash and certificate of deposit balances as shown on the statement of net position at December 31, 2021:

	<u>Unrestricted</u>	<u>Board Designated</u>	<u>Restricted</u>	<u>Total</u>
Revenue fund	\$ 601,066	\$ 29,759	\$ -	\$ 630,825
Operation and maintenance fund	261,156	-	-	261,156
Bond and interest fund-water	-	-	40,406	40,406
Depreciation and maintenance fund	-	-	242,545	242,545
Construction fund-water	<u>541,982</u>	<u>131,141</u>	<u>-</u>	<u>673,123</u>
Water total	<u>1,404,204</u>	<u>160,900</u>	<u>282,951</u>	<u>1,848,055</u>
Construction fund-sewer	-	-	33,437	33,437
Debt service reserve-sewer	-	-	64,723	64,723
Sewer accounts	<u>176,742</u>	<u>-</u>	<u>-</u>	<u>176,742</u>
Sewer total	<u>176,742</u>	<u>-</u>	<u>98,160</u>	<u>274,902</u>
Total	<u>\$ 1,580,946</u>	<u>\$ 160,900</u>	<u>\$ 381,111</u>	<u>\$ 2,122,957</u>

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE C – CAPITAL ASSETS

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

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/2021</u>
Capital assets not depreciated:				
Construction in progress - water	\$ 12,383	\$ 13,908	\$ -	\$ 26,291
Construction in progress - sewer	<u>120,425</u>	<u>63,925</u>	<u>-</u>	<u>184,350</u>
Total not depreciated	132,808	77,833	-	210,641
Capital assets being depreciated:				
Utility plant/distribution system	22,372,089	487,221	(367,846)	22,491,464
Sewer collection	11,005,369	33,650	-	11,039,019
Building	457,697	-	-	457,697
Operating equipment and furniture	21,901	-	-	21,901
Transportation - water	64,321	-	(31,405)	32,916
Transportation - sewer	24,410	-	-	24,410
Equipment- sewer	65,174	-	-	65,174
Communication - water	50,121	-	-	50,121
Communication - sewer	<u>1,031</u>	<u>-</u>	<u>-</u>	<u>1,031</u>
Total depreciable	34,062,113	520,871	(399,251)	34,183,733
Accumulated depreciation				
Accumulated depreciation - water	(8,648,207)	(573,455)	192,332	(9,029,330)
Accumulated depreciation - sewer	<u>(2,654,202)</u>	<u>(286,534)</u>	<u>-</u>	<u>(2,940,736)</u>
Total accumulated depreciation	<u>(11,302,409)</u>	<u>(859,989)</u>	<u>192,332</u>	<u>(11,970,066)</u>
Net depreciable assets	<u>22,759,704</u>	<u>(339,118)</u>	<u>(206,919)</u>	<u>22,213,667</u>
Total capital assets, net	<u>\$ 22,892,512</u>	<u>\$ (261,285)</u>	<u>\$ (206,919)</u>	<u>\$ 22,424,308</u>

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE D – LONG TERM DEBT

The following is a summary of the bonds outstanding for the District for the year ended December 31, 2021:

Series 2000B Revenue Bonds, annual principal and interest payments at 5.125% through January 2039.	\$ 270,500
Series 2009A Revenue Bonds, annual principal and semi-annual interest payments at 2.625% through January 2050.	197,600
Series 2008A, 2008B and 2012C Revenue Bonds refinance, annual principal and semi-annual interest payments at an interest rate of 2.47% through December 2050.	2,370,000
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>365,000</u>
Total	3,203,100
Less: current portion	<u>(105,000)</u>
Long-term portion	<u>\$ 3,098,100</u>

The following is a summary of the notes outstanding for the District for the year ended December 31, 2021:

Central Bank note payable, monthly payments of \$6,570 including principal and interest at 4% through maturity in September 2024, with a final balloon payment for the remaining balance due at maturity.	\$ 174,632
Central Bank note payable, monthly payments of \$2,462 including principal and interest at 4% through maturity in September 2024, with a final balloon payment for the remaining balance due at maturity, secured by the District's office facilities.	293,488
2007 Kentucky Infrastructure Authority Revolving Loan F07-02, semi-annual principal and interest payments at 3% through 2033.	1,128,249
2013 Kentucky Infrastructure Authority Revolving Loan F11-12, semi-annual principal and interest payments at 3% through 2036.	<u>2,384,399</u>
Total	3,980,768
Less: current portion	<u>(252,573)</u>
Long-term portion	<u>\$ 3,728,195</u>

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE D – LONG TERM DEBT - continued

The annual requirements to amortize all bonds outstanding as of December 31, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 105,000	\$ 112,722	\$ 217,722
2023	119,900	110,178	230,078
2024	126,000	105,992	231,992
2025	136,100	100,424	236,524
2026	137,300	93,653	230,953
2027-2031	798,000	358,508	1,156,508
2032-2036	722,000	212,646	934,646
2037-2041	579,500	107,947	687,447
2042-2046	252,100	56,301	308,401
2047-2050	<u>227,200</u>	<u>17,766</u>	<u>244,966</u>
 Total	 <u>\$ 3,203,100</u>	 <u>\$ 1,276,135</u>	 <u>\$ 4,479,235</u>

The annual requirements to amortize all notes payable outstanding as of December 31, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 252,573	\$ 121,518	\$ 374,091
2023	262,063	114,489	376,552
2024	265,002	104,981	369,983
2025	595,908	83,489	679,397
2026	244,414	76,319	320,733
2027-2031	1,337,451	266,215	1,603,666
2032-2036	<u>1,023,357</u>	<u>70,353</u>	<u>1,093,710</u>
Total	<u>\$ 3,980,768</u>	<u>\$ 837,364</u>	<u>\$ 4,818,132</u>

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

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2021</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable	\$ 3,384,900	\$ 2,370,000	\$ (2,551,800)	\$ 3,203,100	\$ 105,000
Notes payable	<u>4,227,375</u>	<u>-</u>	<u>(246,607)</u>	<u>3,980,768</u>	<u>252,573</u>
Total Debt	<u>\$ 7,612,275</u>	<u>\$ 2,370,000</u>	<u>\$ (2,798,407)</u>	<u>\$ 7,183,868</u>	<u>\$ 357,573</u>

NOTE E – 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 from there 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, 2021, the balance in this account exceeded the required amount.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE E – COMPLIANCE WITH BOND RESOLUTION – continued

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, 2021, the accounts that comprise the Debt Service Reserve Account-Water and Debt Service Reserve Account-Sewer exceeded the required amounts.

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 month. The amounts shall be determined, pursuant to the annual budget adopted by the District Board and are made to meet reasonable and necessary expenses. As of December 31, 2021, 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, 2021, \$15,595 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, 2021, the District had no restricted funds from bond sales related to ongoing construction projects.

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, 2021, \$226,950 has been accumulated, exceeding the required amount.

NOTE F – 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, 2021, the District contributed \$15,522 toward the employee retirement program.

NOTE G – 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 no more than seventy-five days.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE H – 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.

NOTE I – COVID-19

Beginning in March 2020 and continuing through the date of these financial statements, the Coronavirus pandemic (COVID-19) is adversely affecting, and is expected to continue to adversely affect, the District's overall operations.

There is uncertainty around the duration and breadth of the COVID-19 pandemic and as a result the ultimate impact on the District's financial condition and operating results cannot be reasonably estimated at this time.

While the District expects the impacts of COVID-19 to have an adverse effect on business, financial condition and results of operations, the District is unable to predict the extent or nature of these impacts at this time.

SUPPLEMENTAL INFORMATION

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET - WATER DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2021

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Water sales	\$ 2,100,000	\$ 2,100,000	\$ 2,512,854	\$ 412,854
Other revenue	128,097	128,097	89,181	(38,916)
Total Operating Revenue	<u>2,228,097</u>	<u>2,228,097</u>	<u>2,602,035</u>	<u>373,938</u>
OPERATING EXPENSES				
Water purchases	800,000	800,000	810,891	10,891
Operation	299,016	299,016	248,080	(50,936)
Maintenance	289,211	289,211	403,600	114,389
General and administrative	153,196	153,196	159,315	6,119
Total Operating Expenses	<u>1,541,423</u>	<u>1,541,423</u>	<u>1,621,886</u>	<u>80,463</u>
Operating Income (Loss) Before Depreciation	686,674	686,674	980,149	293,475
Depreciation expense	<u>(650,000)</u>	<u>(650,000)</u>	<u>(573,456)</u>	<u>76,544</u>
OPERATING INCOME (LOSS)	36,674	36,674	406,693	370,019
Non-Operating Income (Expense)				
Gain (loss) on asset disposal	-	-	(203,918)	(203,918)
Interest income	3,542	3,542	1,141	(2,401)
Interest expense	(212,224)	(212,224)	(216,497)	(4,273)
Total Non-Operating Income (Expense)	<u>(208,682)</u>	<u>(208,682)</u>	<u>(419,274)</u>	<u>(210,592)</u>
Income (Loss) Before Capital Contributions	<u>(172,008)</u>	<u>(172,008)</u>	<u>(12,581)</u>	<u>159,427</u>
Capital Contributions				
Capital contributions	-	-	25,469	25,469
Tap fees	-	-	43,950	43,950
Change in Net Position	<u>\$ (172,008)</u>	<u>\$ (172,008)</u>	<u>\$ 56,838</u>	<u>\$ 228,846</u>

See Independent Auditors' Report and Notes to Financial Statements.

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET - SEWER DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2021

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer sales	\$ 850,000	\$ 850,000	\$ 1,117,701	\$ 267,701
Other revenue	164,198	164,198	31,619	(132,579)
Total Operating Revenue	<u>1,014,198</u>	<u>1,014,198</u>	<u>1,149,320</u>	<u>135,122</u>
OPERATING EXPENSES				
Sewer usage	500,000	500,000	695,909	195,909
Operation	180,235	180,235	186,409	6,174
Maintenance	110,459	110,459	118,400	7,941
General and administrative	91,203	91,203	107,306	16,103
Total Operating Expenses	<u>881,897</u>	<u>881,897</u>	<u>1,108,024</u>	<u>226,127</u>
Operating Income (Loss) Before Depreciation	132,301	132,301	41,296	(91,005)
Depreciation expense	<u>(300,000)</u>	<u>(300,000)</u>	<u>(286,534)</u>	<u>13,466</u>
OPERATING INCOME (LOSS)	(167,699)	(167,699)	(245,238)	(77,539)
Non-Operating Income (Expense)				
Interest income	274	274	203	(71)
Interest expense	<u>(54,595)</u>	<u>(54,595)</u>	<u>(18,008)</u>	<u>36,587</u>
Total Non-Operating Income (Expense)	<u>(54,321)</u>	<u>(54,321)</u>	<u>(17,805)</u>	<u>36,516</u>
Income (Loss) Before Capital Contributions	<u>(222,020)</u>	<u>(222,020)</u>	<u>(263,043)</u>	<u>(41,023)</u>
Capital Contributions				
Capital contributions	-	-	92,446	92,446
Tap fees	-	-	14,264	14,264
Change in Net Position	<u>\$ (222,020)</u>	<u>\$ (222,020)</u>	<u>\$ (156,333)</u>	<u>\$ 65,687</u>

See Independent Auditors' Report and Notes to Financial Statements.

BESTEN & DIERUF PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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*

To the Board of Commissioners
Jessamine-South Elkhorn Water District

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 basic financial statements of Jessamine-South Elkhorn Water District (the District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 11, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 questioned costs. 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.

A handwritten signature in blue ink that reads "Besten+Diruf, LLC". The signature is written in a cursive, flowing style.

Lexington, Kentucky
March 11, 2022

JESSAMINE-SOUTH ELKHORN WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2021

FINDINGS:

2021-001 – 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.

2021-002 – 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.

2021-002 – Segregation of Duties (recurring) - 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 attempt to establish segregation of duties and related mitigating controls to the best of our ability.