

Elkhorn Water District
Independent Auditor's Report
For Years Ended December 31, 2017 and 2016

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ELKHORN WATER DISTRICT
AUDIT REPORT
December 31, 2017 and 2016

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Independent Auditor's Report

Members of the Elkhorn Water District Board
Frankfort, Kentucky 40601

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the 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 Elkhorn Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Elkhorn Water District, as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2018, on our consideration of the 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 Elkhorn Water District's internal control over financial reporting and compliance.

Rich R. Waddle, Jr., CPA
Frankfort, Kentucky
June 12, 2018

Elkhorn Water District
Statements of Net Position
December 31, 2017 and 2016

Assets	2017	2016
Current Assets		
Cash in Bank and on Hand	\$ 159,153	\$ 165,862
Investments at Cost	82,820	82,570
Accounts Receivable	26,503	25,876
Total Current Assets	<u>268,476</u>	<u>274,308</u>
Non-Current Assets		
Restricted Assets - Cash	30,943	29,848
Property, Plant, & Equipment		
Property, Plant, & Equipment	1,256,605	1,256,605
Accumulated Depreciation	(1,035,242)	(1,007,438)
Total Property, Plant & Equipment	<u>221,363</u>	<u>249,167</u>
Total Non-Current Assets	<u>252,306</u>	<u>279,015</u>
Total Assets	<u><u>\$ 520,782</u></u>	<u><u>\$ 553,323</u></u>
Liabilities & Net Assets		
Current Liabilities		
Accounts Payable	\$ 15,056	\$ 33,789
Accrued Taxes Payable	1,861	1,251
Current Portion of Bonds Payable	5,900	5,500
Total Current Liabilities	<u>22,817</u>	<u>40,540</u>
Long Term Liabilities		
Bonds Payable	126,800	132,700
Total Long Term Liabilities	<u>126,800</u>	<u>132,700</u>
Total Liabilities	<u>149,617</u>	<u>173,240</u>
Net Assets		
Investment in Capital Assets, Net of Related Debt		
Restricted	88,663	110,967
Unrestricted	30,943	29,848
Total Net Assets	<u>251,559</u>	<u>239,268</u>
Total Liabilities and Net Assets	<u><u>\$ 520,782</u></u>	<u><u>\$ 553,323</u></u>

The Accompanying Notes are an integral part of these financial statements.

Elkhorn Water District
Statements of Revenues, Expenses, And
Changes In Net Position
For The Years Ended December 31, 2017 and 2016

	2017	2016
Operating Income		
Water Revenue	\$ 305,513	\$ 306,931
Total Operating Income	<u>305,513</u>	<u>306,931</u>
Operating Expenses		
Purchased Water	165,826	168,707
Purchased Power	7,153	7,859
Contractual Services	1,953	17,117
Advertising	503	-
Salaries	-	8,956
Payroll taxes	1,368	685
Postage	2,619	3,052
Maintenance	39,455	47,359
Office Supplies	23,199	3,360
Insurance	4,316	5,351
Legal & Professional	19,725	4,400
Commissioner's Fees	7,200	7,200
Utilities & Telephone	1,385	1,605
Rent	64	-
Chemical & Lab Analysis	2,220	2,399
Miscellaneous	3,820	1,925
Bad Debt Expense	-	-
Depreciation	27,804	28,087
Total Operating Expenses	<u>308,610</u>	<u>308,062</u>
Operating Income	<u>(3,097)</u>	<u>(1,131)</u>
Net Operating Revenue (Expenses)		
Interest Revenue	405	341
Interest Expense	<u>(7,256)</u>	<u>(7,573)</u>
Total Non-Operating Revenue (Expenses)	<u>(6,851)</u>	<u>(7,232)</u>
Net Income Before Contributions	<u>(9,948)</u>	<u>(8,363)</u>
Capital Contributions	<u>1,030</u>	<u>5,900</u>
Change In Position	(8,918)	(2,463)
Net Position - Beginning of Year	<u>380,083</u>	<u>382,546</u>
Net Position - End of Year	<u>\$ 371,165</u>	<u>\$ 380,083</u>

The accompanying notes are an integral part of these financial statements

Elkhorn Water District
Statements of Cash Flows
For The Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 304,886	\$ 304,574
Cash Payments for Employee Services and Benefits	(8,568)	(16,841)
Cash Payments to Suppliers for Goods and Services	(290,361)	(260,127)
Net Cash Provided (Used) by Operating Activities	<u>5,957</u>	<u>27,606</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets		
Capital Contributions Received	1,030	5,900
Bond and Bond Interest Payments	(12,756)	(12,623)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,726)</u>	<u>(6,723)</u>
Cash Flows From Investing Activities:		
Interest Income Received	405	341
Cash Purchases of Investments	(250)	(248)
Net Cash Provided (Used) by Investing Activities	<u>155</u>	<u>93</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(5,614)	20,976
Cash and Cash Equivalents, Beginning of Year	195,710	174,734
Cash and Cash Equivalents, End of Year	<u>\$ 190,096</u>	<u>\$ 195,710</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities		
Operating Income (Loss)	\$ (3,097)	\$ (1,131)
Adjustment to Reconcile Operating Income (Loss) to		
Net Cash Provided (Used) in Operating Activities:		
Depreciation	27,804	28,087
(Increase)/Decrease in Accounts Receivable	(627)	(2,357)
Increase/(Decrease) in Accounts Payable	(18,733)	4,042
Increase/(Decrease) in Accrued Liabilities	610	(1,035)
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,957</u>	<u>\$ 27,606</u>
Components of Cash on the Statement of Net Position		
Cash	159,059	165,862
Restricted Cash	94	15
	<u>159,153</u>	<u>165,877</u>

The accompanying notes are an integral part of these financial statements

Note A - Summary of Significant Accounting Policies

The Elkhorn Water District (the District) was organized in 1974 to provide water service to residents of its district. It is a political subdivision of Franklin County, Kentucky and purchases water from the Frankfort Plant Board for resale to the residents. The District is subject to the regulatory authority of Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Assets and Liabilities, and revenues and expenses are recognized on the accrual basis of accounting. The District incorporates current GASB pronouncements in its proprietary fund activities. The District does not utilize encumbrance accounting in its proprietary fund activities. The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets, restricted, and unrestricted components.

The preparation of financial statements in conformity with generally accepted accounting principles require 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.

The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Operating revenue and expenses consist of revenue and expenses directly related to providing water service to residents of the district. Water revenues are reflected as earned when the customers are billed. Non-operating revenue and expenses consist of interest revenue and interest expenses related to capital and related financing activities. Capital contributions consist of water meters purchased during the year.

The District does not have an allowance for uncollectible accounts. The District writes off balances due when they become uncollectible.

Fixed Assets are recorded at cost and depreciated using the straight-line method at the following rates:

Pumps, lines, and meters	2.50%
Tanks	3.00%
Office Equipment	10.00%
Meter testing equipment	10.00%

Land and land rights are not subject to depreciation. The District capitalizes interest cost incurred during construction of fixed assets.

Investments are stated at cost, which approximates fair value, unless the market value is less than cost and there is evidence the decline in market value is due to other than temporary conditions.

Note B - Cash and Investments

Statutory Requirements

Kentucky Revised Statute 66.480 authorizes the District to invest in obligations of the U.S. treasury, and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks.

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 principle, plus accrued interest.

The District's deposits and investments at December 31, 2017 and 2016 were entirely covered by Federal Depository Insurance.

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 and 2016. The categories of credit risk are defined as follows:

- 1) Insured by the FDIC or collateralized with securities held by government or by its agent in the governments name.
- 2) Collateralized with securities held by pledging financial institution's trust department or agent in the government's name.
- 3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the governments name.

2017 Type of Deposit	CATEGORY			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 190,096.00	\$ -	\$ -	\$ 190,096.00	\$ 190,096.00
Certificate of Deposit	82,820.00	-	-	82,820.00	82,820.00
	\$ 272,916.00	\$ -	\$ -	\$ 272,916.00	\$ 272,916.00

2016 Type of Deposit	CATEGORY			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 198,861.00	\$ -	\$ -	\$ 185,788.00	\$ 195,710.00
Certificate of Deposit	82,570.00	-	-	82,322.00	82,570.00
	\$ 281,431.00	\$ -	\$ -	\$ 268,110.00	\$ 278,280.00

Statement of Cash Flows

The Statement of Cash Flows includes the following as cash and cash equivalents:

Cash

Operations & Maintenance Fund
Revenue Fund

Total Cash in Bank

Investments

CD

Restricted Cash

Sinking Fund
Reserve Fund
Construction Account
Total Restricted Cash

Total Cash & Cash Equivalents

	2017	2016
Operations & Maintenance Fund	\$ 14,561	\$ 1,112
Revenue Fund	144,592	164,750
Total Cash in Bank	159,153	165,862
Investments		
CD	82,820	82,570
Restricted Cash		
Sinking Fund	94	15
Reserve Fund	26,925	26,906
Construction Account	3,924	2,927
Total Restricted Cash	30,943	29,848
Total Cash & Cash Equivalents	\$ 272,916	\$ 278,280

Note C - Accounts Payable

Accounts payable at December 31, 2017 and 2016 consist of the following:

	2017	2016
Water Purchases	\$12,158	\$13,296
Electric	851	1,120
Chemicals	492	438
Contractual Services	0	8438
Legal & Professional	800	9125
Office Expense	11	12
Advertising	17	0
Repairs & Maintenance	610	1231
Utilities & Telephone	117	128
TOTAL	<u>\$15,056</u>	<u>\$33,788</u>

Most Accounts were paid in January or February, 2018, and all checks cleared the bank.

Note D- Insurance and Related Activities

The District is exposed to various forms of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries general liability and commercial insurance for workers compensation and employee health and accident claims.

Note E - Purchased Water Contracts

The Elkhorn Water District purchases treated water from the Frankfort Plant Board as the District does not produce it's own water.

Note F - Long-Term Debt

In December 1993 the District issued and sold \$200,000 of USDA Rural Development Bonds for the purpose of extending water service to other customers. The bonds pay interest at 5.25% and mature ratably through the year 2032. The District's annual principle payments are due January 1st of each year. The District paid it's principle and interest requirement for January 1, 2017 at December 31, 2016.

The outstanding amount of the bonds were \$132,700 at December 31, 2017 and \$138,200 at December 31, 2016. The annual debt service requirements to retire the bonds outstanding at December 31, 2017 for each of the next five years and in remaining five year increments are as follows:

Year Ending	Bond/Note Principle	Bond/Note Interest	Total
2018	5,900	6,966	12,866
2019	6,300	6,656	12,956
2020	6,700	6,326	13,026
2021	7,200	5,974	13,174
2022	7,700	5,596	13,296
Thereafter	98,900	28,358	127,258
Total	<u>\$ 132,700</u>	<u>\$ 59,876</u>	<u>192,576</u>

Changes in Long-Term Debt:

Description	December 31, 2017				
	31-Dec-16	Additions	Retirements	31-Dec-17	Current Retirement
Long-term Debt	\$ 138,200	\$ -	\$ (5,050)	\$ 132,700	\$ 5,900

Description	December 31, 2016				
	31-Dec-15	Additions	Repayments	31-Dec-16	Current Retirement
Long-Term Debt	\$ 143,250.00	\$ -	\$ 5,050.00	\$ 138,200.00	\$ 5,500.00

Note G - Reserves

Debt Service Reserve - There is to be a monthly deposit of \$130 until a balance of \$15,600 is accumulated for all bond issues. The Reserve Fund balance totaled \$30,943 at December 31, 2017 and \$29,848 at December 31, 2016, and are included in Restrictions of Net Assets for December 31, 2017 and 2016.

Note H - Concentrations of Credit Risk

The District did not have cash, and cash equivalents in excess of FDIC insurance as of December 31, 2017. All cash and cash equivalent amounts were under category 1 of credit risk and were insured by the FDIC.

Note I - Related Party Transactions

The District utilized the services of Gatewood Water Service as an independent contractor in 2017, and 2016. The District utilized the services of the Peaks Mill Water District for administrative support in 2017, and 2016.

Note J - Subsequent Events

Management did not indicate financially impacting information regarding subsequent events. An evaluation of subsequent events through June 12, 2018 found no events that appeared to have a material effect regarding the accompanying financial statements of Elkhorn Water District as of and for the year ended December 31, 2017.

Note K - Property, Plant, & Equipment

Description	Capital Assets Being Depreciated			
	December 31, 2016	Additions	Retirements	December 31, 2017
Pumps, Lines, & Meters	936,137			936,137
Tanks	294,318			294,318
Meters	16,352			16,352
Office Equipment	8,798			8,798
Total	\$ 1,255,605	\$ -	\$ -	\$ 1,255,605
Less: Accumulated Depreciation	1,007,438	27,804		1,035,242
Net Depreciable Assets	248,167	(27,804)		220,363
Total Capital Assets, Net	\$ 249,167	\$ (27,804)	\$	\$ 221,363

Description	Capital Assets Being Depreciated			
	December 31, 2015	Additions	Retirements	December 31, 2016
Pumps, Lines, & Meters	936,137	1,653		936,137
Tanks	294,318	-		294,318
Meters	16,352	420		16,352
Office Equipment	8,798			8,798
Total	\$ 1,255,605	\$ 2,073	\$ -	\$ 1,255,605
Less: Accumulated Depreciation	979,351	28,087		1,007,438
Net Depreciable Assets	276,254	(28,087)		248,167
Total Capital Assets, Net	\$ 277,254	\$ (28,087)	\$	\$ 249,167

Depreciation for the years ended December 31, 2017 and 2016 was \$27,804 and \$28,087.

Note L-Interest Expense

Interest expense incurred and charged to expense for the years ended December 31, 2017 and 2016 was \$7,256 and \$7,573. No interest was capitalized in 2017 and 2016.

Note M-Schedule of Annual Debt Requirements

		Issue: 1997 Issue (91-03)			
Year End	Bond Prin. Due January 1, 2017	Interest		Total Interest	Total Requirements
		January 1, 2017	July 1, 2017		
2018	5,900	3,483	3,483	6,966	12,866
2019	6,300	3,328	3,328	6,656	12,956
2020	6,700	3,163	3,163	6,326	13,026
2021	7,200	2,987	2,987	5,974	13,174
2022	7,700	2,798	2,798	5,596	13,296
2023	8,200	2,596	2,596	5,192	13,392
2024	8,800	2,380	2,380	4,760	13,560
2025	9,400	2,149	2,149	4,298	13,698
2026	10,100	1,903	1,903	3,806	13,906
2027	10,800	1,638	1,638	3,276	14,076
2028	11,500	1,354	1,354	2,708	14,208
2029	12,400	1,052	1,052	2,104	14,504
2030	13,200	727	727	1,454	14,654
2031	14,500	380	380	760	15,260
	<u>\$ 132,700</u>	<u>\$ 29,938</u>	<u>\$ 29,938</u>	<u>\$ 59,876</u>	<u>\$ 192,576</u>

**Independent Auditor's Report on Control over Financial Reporting and
on Compliance and Other Matters on an Audit of Financial Statements
Performed in Accordance with *Governmental Auditing Standards***

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**To the Board Members of the Elkhorn Water District
Frankfort, Kentucky 40601**

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 governmental activities, of the Elkhorn Water District, as of and for the year ended December 31, 2017 & 2016, and the related notes to the financial statements, which collectively comprise the Elkhorn Water District's basic financial statements, and have issued our report thereon dated June 12, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Elkhorn Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Rick R. Waddle, Jr., CPA

Frankfort, Kentucky 40601
June 12, 2018