

**Elkhorn Water District**  
**Independent Auditor's Report**  
**For Years Ended December 31, 2018 and 2017**

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**ELKHORN WATER DISTRICT**  
**AUDIT REPORT**  
**December 31, 2018 and 2017**

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# INDEPENDENT AUDITOR'S REPORT

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

## Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, of the Elkhorn Water District as of and for the year ended December 31, 2018 & 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 business-type activities of the Elkhorn Water District, as of December 31, 2018 & 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 11, 2019, on our consideration of the Elkhorn Water District's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Elkhorn Water District's internal control over financial reporting and compliance.

*Rick R. Waddle, Jr., CPA, PLLC*  
June 11, 2019

Elkhorn Water District  
Statements of Net Position  
December 31, 2018 and 2017

Assets	2018	2017
<b>Current Assets</b>		
Cash in Bank and on Hand	\$ 128,739	\$ 159,153
Investments at Cost	83,066	82,820
Accounts Receivable	24,536	26,503
<b>Total Current Assets</b>	<u>236,341</u>	<u>268,476</u>
<b>Non-Current Assets</b>		
Restricted Assets - Cash	38,242	30,943
Property, Plant, & Equipment		
Property, Plant, & Equipment	1,256,605	1,256,605
Accumulated Depreciation	(1,060,658)	(1,035,242)
<b>Total Property, Plant &amp; Equipment</b>	<u>195,947</u>	<u>221,363</u>
<b>Total Non-Current Assets</b>	<u>234,189</u>	<u>252,306</u>
<b>Total Assets</b>	<u><u>\$ 470,530</u></u>	<u><u>\$ 520,782</u></u>
<b>Liabilities &amp; Net Assets</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 21,261	\$ 15,056
Accrued Taxes Payable	935	1,861
Current Portion of Bonds Payable	6,300	5,900
<b>Total Current Liabilities</b>	<u>28,496</u>	<u>22,817</u>
<b>Long Term Liabilities</b>		
Bonds Payable	120,500	126,800
<b>Total Long Term Liabilities</b>	<u>120,500</u>	<u>126,800</u>
<b>Total Liabilities</b>	<u>148,996</u>	<u>149,617</u>
<b>Net Assets</b>		
Investment in Capital Assets, Net of Related Debt	69,147	88,663
Restricted	38,242	30,943
Unrestricted	214,145	251,559
<b>Total Net Assets</b>	<u>321,534</u>	<u>371,165</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 470,530</u></u>	<u><u>\$ 520,782</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, 2018 and 2017

	2018	2017
Operating Income		
Water Revenue	\$ 308,382	\$ 305,513
Total Operating Income	<u>308,382</u>	<u>305,513</u>
Operating Expenses		
Purchased Water	190,008	165,826
Purchased Power	9,125	7,153
Contractual Services	46,465	1,953
Advertising	1,291	503
Payroll taxes	1,162	1,368
Postage	3,425	2,619
Maintenance	10,290	39,455
Office Supplies	4,240	23,199
Insurance	4,844	4,316
Legal & Professional	27,160	19,725
Commissioner's Fees	8,950	7,200
Utilities & Telephone	1,403	1,385
Rent	70	64
Chemical & Lab Analysis	2,102	2,220
Miscellaneous	4,356	3,820
Administrative Fee	18,929	-
Bad Debt Expense	-	-
Depreciation	25,416	27,804
Total Operating Expenses	<u>359,236</u>	<u>308,610</u>
Operating Income	<u>(50,854)</u>	<u>(3,097)</u>
Net Operating Revenue (Expenses)		
Interest Revenue	604	405
Interest Expense	(6,967)	(7,256)
Total Non-Operating Revenue (Expenses)	<u>(6,363)</u>	<u>(6,851)</u>
Net Income Before Contributions	<u>(57,217)</u>	<u>(9,948)</u>
Capital Contributions	<u>7,585</u>	<u>1,030</u>
Change In Position	(49,632)	(8,918)
Net Position - Beginning of Year	<u>371,165</u>	<u>380,083</u>
Net Position - End of Year	<u>\$ 321,533</u>	<u>\$ 371,165</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, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 310,349	\$ 304,886
Cash Payments for Employee Services and Benefits	(10,112)	(8,568)
Cash Payments to Suppliers for Goods and Services	(318,428)	(290,361)
Net Cash Provided (Used) by Operating Activities	<u>(18,191)</u>	<u>5,957</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets		
Capital Contributions Received	7,585	1,030
Bond and Bond Interest Payments	(12,867)	(12,756)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,282)</u>	<u>(11,726)</u>
Cash Flows From Investing Activities:		
Interest Income Received	604	405
Cash Purchases of Investments	(246)	(250)
Net Cash Provided (Used) by Investing Activities	<u>358</u>	<u>155</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(23,115)	(5,614)
Cash and Cash Equivalents, Beginning of Year	190,096	195,710
Cash and Cash Equivalents, End of Year	<u>\$ 166,981</u>	<u>\$ 190,096</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities		
Operating Income (Loss)	\$ (50,854)	\$ (3,097)
Adjustment to Reconcile Operating Income (Loss) to		
Net Cash Provided (Used) in Operating Activities:		
Depreciation	25,416	27,804
(Increase)/Decrease in Accounts Receivable	1,967	(627)
Increase/(Decrease) in Accounts Payable	6,204	(18,733)
Increase/(Decrease) in Accrued Liabilities	(924)	610
Net Cash Provided (Used) by Operating Activities	<u>\$ (18,191)</u>	<u>\$ 5,957</u>
Components of Cash on the Statement of Net Position		
Cash	128,739	159,059
Restricted Cash	<u>11,467</u>	<u>94</u>
	140,206	159,153

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, 2018 and 2017 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, 2018 and 2017. 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.

2018 Type of Deposit	CATEGORY			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 166,981.00	\$ -	\$ -	\$ 166,981.00	\$ 166,981.00
Certificate of Deposit	83,066.00	-	-	83,066.00	83,066.00
	\$ 250,047.00	\$ -	\$ -	\$ 250,047.00	\$ 250,047.00

  

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

### **Statement of Cash Flows**

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

Cash	2018	2017
Operations & Maintenance Fund	\$ 12,728	\$ 14,561
Revenue Fund	116,011	144,592
<b>Total Cash in Bank</b>	<b>128,739</b>	<b>159,153</b>
<b>Investments</b>		
CD	83,066	82,820
<b>Restricted Cash</b>		
Sinking Fund	11,467	94
Reserve Fund	15,603	26,925
Construction Account	11,172	3,924
<b>Total Restricted Cash</b>	<b>38,242</b>	<b>30,943</b>
<b>Total Cash &amp; Cash Equivalents</b>	<b>\$ 250,047</b>	<b>\$ 272,916</b>



### **Note C - Accounts Payable**

Accounts payable at December 31, 2018 and 2017 consist of the following:

	2018	2017
Water Purchases	\$18,493	\$12,158
Electric	869	851
Chemicals	36	492
Legal & Professional	35	800
Office Expense	59	11
Advertising	0	17
Repairs & Maintenance	1652.08	610
Utilities & Telephone	117	117
TOTAL	<u>\$21,261</u>	<u>\$15,056</u>

Most Accounts were paid in January or February, 2019, 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. Settlement claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **Note E - Purchased Water Contracts**

The Elkhorn Water District purchases treated water from the Frankfort Plant Board as the District does not produce its 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 its principle and interest requirement for January 1, 2018 at December 31, 2017. The following is a summary of the bonds and notes outstanding for the District for the year ended December 31, 2018:

USDA, Rural Development Bond - \$200,000, date December 6, 1993 with payments through 2032, bearing interest at a rate of 5.25%:

	\$ 126,800
Less Current Portion of Debt	6,300
Long-Term Debt	<u>\$ 120,500</u>

The outstanding amount of the bonds were \$126,800 at December 31, 2018 and \$132,700 at December 31, 2017. The annual debt service requirements to retire the bonds outstanding at December 31, 2018 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
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
2023	8,200	5,192	13,392
Thereafter	90,700	11,583	102,283
Total	<u>\$ 126,800</u>	<u>\$ 41,327</u>	<u>168,127</u>

**Changes in Long-Term Debt:**

Description	December 31, 2018				
	31-Dec-17	Additions	Retirements	31-Dec-18	Current Retirement
Long-term Debt	\$ 132,700	\$ -	\$ (5,900)	\$ 126,800	\$ 6,300

  

Description	December 31, 2017				
	31-Dec-16	Additions	Repayments	31-Dec-17	Current Retirement
Long-Term Debt	\$ 138,200.00	\$ -	\$ (5,500.00)	\$ 132,700.00	\$ 5,900.00

**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 \$38,242 at December 31, 2018 and \$30,943 at December 31, 2017, and are included in Restrictions of Net Assets for December 31, 2018 and 2017.

**Note H - Concentrations of Credit Risk**

The District did not have cash, and cash equivalents in excess of FDIC insurance as of December 31, 2018. 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 2018, and 2017. The District utilized the services of the Peaks Mill Water District for administrative support in 2018, and 2017.

**Note J - Subsequent Events**

Management did not indicate financially impacting information regarding subsequent events. An evaluation of subsequent events through June 11, 2019, 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, 2018.

**Note K - Property, Plant, & Equipment**

Description	Capital Assets Being Depreciated			
	December 31, 2017	Additions	Retirements	December 31, 2018
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	1,035,242	25,416		1,060,658
Net Depreciable Assets	220,363	(25,416)		194,947
Total Capital Assets, Net	\$ 221,363	\$ (25,416)		\$ 195,947

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

Depreciation for the years ended December 31, 2018 and 2017 was \$25,416 and \$27,804.

**Note L-Interest Expense**

Interest expense incurred and charged to expense for the years ended December 31, 2018 and 2017 was \$6,967 and \$7,256. No interest was capitalized in 2018 and 2017.

**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		
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>\$ 126,800</u>	<u>\$ 26,455</u>	<u>\$ 26,455</u>	<u>\$ 52,910</u>	<u>\$ 179,710</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 business-type activities, of the Elkhorn Water District, as of and for the year ended December 31, 2018 & 2017, 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 11, 2019.

**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, PLLC*

Frankfort, Kentucky 40601  
June 11, 2019