

BIG SANDY
WATER DISTRICT

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PUBLIC SERVICE
COMMISSION

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
for the year ended December 31, 2012

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John T. Lane and Associates, LLC
Certified Public Accountants
219 Young Lane, Suite 2
Mt. Sterling, Kentucky 40353
(859) 498-9915
www.thelanecpa.com

Member:
American Institute of CPA's
Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Big Sandy Water District
Catlettsburg, Kentucky

Report on Financial Statements

We have audited the accompanying financial statements listed in the Table of Contents of the business-type activities of the Big Sandy Water District as of and for the year ended December 31, 2012 which comprises the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 Big Sandy Water District as of December 31, 2012, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 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 the Big Sandy Water District's basic financial statements. The comparative statement of revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The comparative statement of revenues and expenses is the responsibility of management and was 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 comparative statement of revenues and expenses is fairly stated in all material respects in relation to the basic financial statements as a whole.

The comparative statement of revenues and expenses has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it

Other reports required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 16, 2013, on our consideration of the Big Sandy 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 Big Sandy Water District's internal control over financial reporting and compliance.

John T. Lane & Associates, LLC

May 16, 2013
This report contains 17 pages.

Management's Discussion and Analysis

In June, 1999, the Governmental Accounting Standards Board (GASB) adopted Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The standard requires that a "Management Discussion and Analysis" be included in the annual report along with annual audited financial statements.

Our discussion and analysis of the Big Sandy Water District's Financial performance provided an overview of the Company's financial activities for the year ended December 31, 2012. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

In 2012, Big Sandy Water District had two significant activities that affected our financial status.

In September 2011, one of two 8" water lines that cross the Big Sandy River from Kenova, West Virginia developed a leak beyond repair. BSWD had to do a directional bore under the Big Sandy River to replace existing line that was leaking. The work was completed in December 2011. The cost of this project was \$177,591. BSWD received a loan from Town Square Bank for \$113,250 in January 2012 and the remainder was paid with in house funds.

Contract FF-BSWD installed 25 valves and 7 leak detection meters throughout our system to aid in water loss prevention. The work was completed in March 2012. The cost of this project was \$154,703. BSWD received a Line of Credit from Town Square Bank for this project.

Required Financial Statements

The financial statements of Big Sandy Water District (BSWD) reports information of BSWD using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information and its activities. The Statement of New Assets included all of Big Sandy Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to BSWD creditors (liabilities). It also provides the basis for evaluating the capital structure of BSWD and assessing the liquidity and financial flexibility of BSWD.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of Big Sandy Water District's operations over the past year and can be used to determine whether BSWD has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis

Total assets to total liabilities for 2012 show a ratio of 2.73 to 1 meaning BSWD has \$2.73 worth of assets to each \$1.00 worth of liabilities. This compares to 2011 at 2.74 to 1 and 2010 at 2.79 to 1.

The Operating Revenue increased 9% in 2012 to \$2,161,830 from \$1,984,420. Forty-eight percent of the revenue goes to purchase water. Hourly employees and benefits received 24%, principle and interest took 25%.

Charge-off accounts that were deemed not collectable were \$13,008 in 2012 compared to \$10,698 in 2011. This is .60% of revenue. That amount is covered by the \$53,066 collected as late payment penalties.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Big Sandy Water District's Finances and to demonstrate Big Sandy Water District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact James Blanton or Teresa Brown at (606) 928-2075 or 1-800-354-2933.

Big Sandy Water District
Statement of Net Position
Proprietary Fund Type
December 31, 2012

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 71,933
Cash and cash equivalents - restricted (note 7)	751,659
Accounts receivable - net of allowance for doubtful accounts (note 1)	235,245
Inventory	53,171
Prepaid expenses	<u>11,819</u>
Total Current Assets	<u>1,123,827</u>
Noncurrent Assets	
Capital assets: (note 1)	
Work in progress	177,150
Plant, equipment and lines	18,054,794
Less accumulated depreciation	<u>(6,327,132)</u>
Total Noncurrent Assets	<u>11,904,812</u>
Total Assets	<u><u>\$ 13,028,639</u></u>

LIABILITIES

Current Liabilities	
Accrued expenses	\$ 125,911
Bonds payable (note 2)	816,068
Payable from restricted assets	<u>112,980</u>
Total Current Liabilities	<u>1,054,959</u>
Noncurrent Liabilities	
Bonds payable (note 2)	<u>3,723,093</u>
Total Noncurrent Liabilities	<u>3,723,093</u>
Total Liabilities	<u>4,778,052</u>

NET ASSETS

Invested in capital assets, net of related debt	7,365,651
Restricted net assets	638,679
Unrestricted net assets	<u>246,257</u>
Total Net Assets	<u><u>\$ 8,250,587</u></u>

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

Big Sandy Water District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund Type
For the year ended December 31, 2012

Revenues	
User fees	\$ 2,136,808
Other water revenue	<u>25,022</u>
Total Revenues	<u>2,161,830</u>
Expenses	
Wages	342,506
Commissioners expense	1,415
Taxes & benefits	168,185
Purchased water & power	1,037,053
Materials & supplies	143,781
Contractual services	35,341
Trasnsportation expense	38,423
Equipment expense	15,191
Insurance	21,064
Postage	18,505
Bad debt	13,008
Other expense	13,270
Telephone	6,227
Depreciation	<u>422,163</u>
Total Operating Expenses	<u>2,276,132</u>
Operating Income (Loss)	<u>(114,302)</u>
Nonoperating Revenues (Expenses)	
Tap fees	50,645
Interest income	1,050
Interest expense	<u>(224,542)</u>
Net Nonoperating Revenues (Expenses)	<u>(172,847)</u>
Net Income (Loss)	(287,149)
Total Net Assets - beginning	<u>8,537,736</u>
Total Net Assets - ending	<u><u>\$ 8,250,587</u></u>

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

Big Sandy Water District
Statement of Cash Flows
Proprietary Fund Type
December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 2,106,241
Cash paid to employees	(342,506)
Cash paid for general and administrative expenses	<u>(1,592,111)</u>
Net Cash provided by operating activities	<u>171,624</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	1,050
Customer deposits	<u>(2,150)</u>
Net Cash provided by investing activities	<u>(1,100)</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Note/bond payments	(329,798)
Note/bond proceeds	293,204
Tap fees	50,645
Purchase of assets	(154,703)
Interest paid	<u>(216,524)</u>
Net Cash used in capital and financing activities	<u>(357,176)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(186,652)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,010,244</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 823,592</u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (114,302)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Decrease in inventory	11,780
Depreciation	422,163
(Increase) in accounts receivable	(55,589)
(Increase) in prepaid expenses	(551)
(Decrease) in accounts payable	<u>(91,877)</u>
Net cash provided by operating activities	<u>\$ 171,624</u>

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

BIG SANDY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

Note 1 - Summary of Significant Accounting Policies

The Big Sandy Water District is a water utility which services areas of Boyd, Carter, Johnson and Lawrence Counties. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1961. The District is subject to the regulatory District of the Kentucky Public Service Commission pursuant to KRS 278. 040.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Big Sandy Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are not other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund until it reaches the fully funded level of \$129,600. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside \$131,096 into this fund at December 31, 2012. The required balance at December 31, 2011 is \$129,600,

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2011 was \$84,579. The District had set aside \$119,319.

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. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded as an asset at that time. They are recorded at lower of cost or market valued on the FIFO method.

Cash

At December 31, 2012, the carrying amount of the District's deposits was \$823,592 and the bank balance was \$837,707. Of the bank balance \$100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. The District considers all investments with a maturity of three months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents.

Fixed Assets

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Lines and tanks	50 years
Hydrants	30 years
Meters	20 years
Equipment	10 years
Vehicles	5 years

The District's capitalization policy is as follows: expenditures costing more than \$5,000 with an estimated useful life greater than one year are capitalized; all others are expensed.

Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets- net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are recorded as restricted when there are limitations imposed on their use by external restrictions.

Investments

Investments are carried at cost which is the lower of cost or fair market value.

Accounts Receivable

The receivable reflected in the statements in the amount of \$235,245 is net of allowance for uncollectible in the amount of \$-0-.

Use of Estimates

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

Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2012, ten separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A

Lender – Rural Development
Balance of loan - \$923,000
Rate – 4.5%
Principal due January 1
Interest due January and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note B

Lender – USDA
Balance of loan - \$468,500
Rate – 4.5%
Principal due January 1
Interest due January and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note C

Lender – Ky Infrastructure District
Balance of loan - \$567,500
Rate – 4.60%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note D

Lender – USDA
Balance of loan - \$412,000
Rate – 4.5%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note E

Lender – KRWFC
Balance of loan - \$517,000
Rate – 4.15%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision – subject to payments prior to its state maturity without penalty or premium, at any time upon ten (10) days notice.

Note F
 Lender – KRWFC
 Balance of loan - \$545,000
 Rate – Variable
 Payment due January 1 and July 1

Note G
 Lender – KRWFC
 Balance of loan - \$763,000
 Rate – Variable
 Payment due – January 1
 Interest due January 1 and July 1

Note H
 Lender – Caterpillar Financial Services
 Balance of loan - \$54,958
 Rate – 3.75%
 Principal and interest due – monthly, payment of \$1,431

Note I
 Lender – Town Square Bank
 Balance of loan - \$113,250
 Rate – 7.99%
 Principal and interest due – January 18, 2013

Note J
 Lender – Town Square Bank
 Balance of loan - \$174,953
 Rate – Variable
 Principal due March 8, 2013, interest due monthly

Schedule of Maturities

2013	\$816,068	2018-2022	\$949,500
2014	365,950	2023-2027	909,500
2015	174,058	2028-2032	575,500
2016	170,585	2033-2037	300,500
2017	171,500	2038-2042	<u>106,000</u>
			\$4,539,161

Schedule of Bonds Payable

	balance			balance	Current
	<u>12/31/2011</u>	<u>Additions</u>	<u>Payments</u>	<u>12/31/2012</u>	<u>Portion</u>
USDA 91-07	\$947,500	\$-	\$24,500	\$923,000	\$26,000
USDA 91-10	420,500	-	8,500	412,000	9,500
USDA 91-11	476,000	-	7,500	468,500	8,500
Kentucky Infrastructure C89-16	740,000	-	172,500	567,500	367,500
Kentucky Rural Water 2001	554,000	-	37,000	517,000	38,000
Kentucky Rural Water 2004	569,000	-	24,000	545,000	25,000
Kentucky Rural Water 2007	799,000	-	36,000	763,000	38,000
Town Square Bank	-	113,250	-	113,250	113,250
Town Square Bank	-	179,953	5,000	174,953	174,953
Caterpillar	<u>69,756</u>	<u>-</u>	<u>14,798</u>	<u>54,958</u>	<u>15,365</u>
	<u>\$4,575,756</u>	<u>\$293,203</u>	<u>\$329,798</u>	<u>\$4,539,161</u>	<u>\$816,068</u>

Note 3- Pension Plan

The District provides pension benefits for its employees through the County Employees Retirement System (CERS). In this type of plan, the monthly retirement benefit is based upon several factors, primarily of which is the length of service, the systems benefit factor (2.5%), and the average of the five highest fiscal year wages from all public employee's retirement system participation (CERS, KERS, & SPRS). All full time employees who work an average of 100 hours per month over a fiscal year must participate with CERS.

The plan currently requires the District to contribute an amount equal to 18.96/19.55% of the employee's base salary each month, with employees required to contribute 5%. The District's contribution will vary, depending on the dictates of the management of the county plan. The required employer's contribution is usually reviewed at least annually.

The District's total payroll in year 2012 was \$342,719 and its contributions were calculated using the base salary amount of \$308,095. Contributions to the plan were \$15,405 and \$59,330 by the employees and the District, respectively.

Note 4 - Leave Policies

The District's employees are covered by leave policies as follow:

- a) sick leave – one day per month to a maximum accumulation of sixty days;
 - b) annual leave – five days per annum with 1-2 years employment; ten days per annum with 3-9 years employment; fifteen days per annum after 10 years employment. One week of annual leave may be carried forward to the next year, but must be taken by March 31st of that year.
- Accumulated leave not paid on termination.

Note 5 - Changes in Fixed Assets

The following is a summary of changes in the fixed assets for the fiscal year:

	balance <u>12/31/11</u>	Transfer/ <u>Additions</u>	<u>Deletions</u>	balance <u>12/31/12</u>
Land	\$25,529	\$-	\$-	\$25,529
Structures & improvements	121,531	154,703	-	276,234
Distribution system	15,694,781	-	-	15,694,781
Vehicles	156,625	-	-	156,625
Equipment	1,901,625	-	-	1,901,625
Construction in process	<u>177,150</u>	-	-	<u>177,150</u>
	<u>18,077,241</u>	<u>154,703</u>	-	<u>18,231,944</u>
Accumulated depreciation	<u>5,904,969</u>	<u>422,163</u>	-	<u>6,327,132</u>
Net fixed assets	<u>12,172,272</u>			<u>11,904,812</u>

Note 6 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account.

Note 7 - Restricted Cash

Restricted cash is composed of the following:

Deposit account	\$55,903
Depreciation reserve fund	131,096
Debt reserve fund Regions (KRWFC)	148,023
Debt reserve fund (KIA)	297,318
Debt reserve fund (USDA)	<u>119,319</u>
	<u>\$751,659</u>

Note 8 - Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2012. Areas of noncompliance, if any, as a result of examinations would be included as a part of the "Findings and Questioned Costs" section of this report.

Note 9 - Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

Note 10 - Investments

The District's investment policy is governed by the Kentucky Statutes. These requirements authorize the District to invest in obligations backed by full faith and credit of the United States and obligations of any corporation of the United States government. The policy requires that amounts on deposit with financial institutions be collateralized at a rate of 100% of amounts in excess of deposit insurance coverage.

SUPPLEMENTAL INFORMATION

JOHN T. LANE and ASSOCIATES, LLC
Certified Public Accountants
219 Young Lane, Suite 2
Mt. Sterling, Kentucky 40353
(859) 498-9915
www.thelanecpa.com

Member:
American Institute of CPA's
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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

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 Big Sandy Water District as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Big Sandy Water District's basic financial statements and have issued our report thereon dated May 16, 2013

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency. (12-01)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Big Sandy Water District's financial statements are free of 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*.

Big Sandy Water District's Response to the Finding

The Big Sandy Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Big Sandy Water District's response 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.

John T. Lane & Associates, LLC

May 16, 2013

Big Sandy Water District
 COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
 for the years ended December 31, 2012 and 2011

	2012	2011
Revenues		
User fees	\$ 2,136,808	\$ 1,956,223
Other water revenue	25,022	28,197
Total Revenues	2,161,830	1,984,420
Total Operating Expenses	2,276,132	2,088,994
Operating Income (Loss)	(114,302)	(104,574)
Nonoperating Revenues (Expenses)		
Grants	-	272,958
Tap fees	50,645	50,125
Interest income	1,050	2,134
Other nonoperating revenues	-	1,109
Interest expense	(224,542)	(215,022)
Net Nonoperating Revenues (Expenses)	(172,847)	111,304
Net Income (Loss)	\$ (287,149)	\$ 6,730

BIG SANDY WATER DISTRICT
FINDINGS AND RESPONSES
December 31, 2012

Prior Findings

11-01 Budget Review- Repeated as 12-01

Current Findings

12-01 Budget Review

Condition: The District prepares a detailed annual budget. However, actual performance is not measured against the annual budget.

Criteria: A more frequent review of operating results and budget variations will enable management to more actively run the business by recognizing unusual trends that may indicate fraud, unwise use of resources, operational inefficiencies, poor decision making or missed business opportunities.

Cause: Unknown

Recommendation: We recommend a budget review that includes participation of appropriate employees no less frequent than quarterly.

Response: We will start reviewing our budget quarterly at our monthly board meetings.