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**From:** Audrea Miller  
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ESTILL COUNTY WATER DISTRICT NO. 1  
FINANCIAL REPORT  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Estill County Water District No. 1  
Irvine, Kentucky

We have audited the accompanying statements of financial position of the Estill County Water District No. 1, as of and for the years ended December 31, 2012 and 2011, which collectively comprise the Estill County Water District #1 basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Estill County Water District No. 1, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2013, on our consideration, of the Estill County Water District No. 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinions on the financial statements taken as a whole. The supplemental information shown on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements of the Estill County Water District No. 1. The accompanying supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Ludwig, Blair + Bush, PLLC*

Winchester, Kentucky

June 4, 2013

**ESTILL COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**Years ended December 31, 2012 and 2011**

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This discussion and analysis is intended to be an easily readable analysis of the Estill County Water District's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements and notes that follow. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

**FINANCIAL HIGHLIGHTS**

- In 2012, the District's net position decreased by \$302,477, or 5.34%.
- In 2012, revenues increased by \$14,578 or 1.03%.
- Total expenses decreased by \$23,668, or 1.34% in 2012
- Additions to capital assets in 2012 amounted to \$00000.
- Principal payments on long-term debt amounted to \$80,800 in 2012, compared to \$77,100 in 2011.

**OVERVIEW OF FINANCIAL STATEMENTS**

This report consists of the management's discussion and analysis and the basic financial statements. The financial statements include notes that explain information included in the basic financial statements.

**FINANCIAL STATEMENTS**

The financial statements report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The financial statements also include a statement of cash flows, which presents sources and uses of cash and changes in cash balances during the fiscal year.

**ESTILL COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**Years ended December 31, 2012 and 2011**

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

**NET POSITION**

A summary of the District's statement of net position as of December 31, 2012 and 2011 is presented below:

	2012 Amount	2011 Amount	Net Dollar Change	Net Percentage Change
Current and other assets	214,506	164,192	50,314	30.64%
Restricted assets	378,422	499,744	(121,322)	-24.28%
Property, Plant, & Equipment net of accumulated depreciation	(5,564,410)	(5,225,863)	(338,547)	6.48%
<b>Total Assets</b>	<b>8,293,367</b>	<b>8,715,272</b>	<b>(421,905)</b>	<b>-4.84%</b>
Current Liabilities	203,082	203,082	0	0.00%
Long Term Debt	2,762,600	2,843,400	(80,800)	-2.84%
<b>Total Liabilities</b>	<b>2,927,054</b>	<b>3,046,482</b>	<b>(119,428)</b>	<b>-3.92%</b>
Invested in capital assets	7,051,931	7,037,965	13,966	0.20%
Restricted net positions	378,422	442,244	(63,822)	-14.43%
Unrestricted (deficit) net positions	(2,064,040)	(1,811,419)	(252,621)	13.95%
<b>Total Net Assets</b>	<b>5,366,313</b>	<b>5,668,790</b>	<b>(302,477)</b>	<b>-5.34%</b>

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

A summary of the District's statement of revenues, expenses and changes in net position for the year ended December 31, 2012 and 2011 is presented below:

	2012 Amount	2011 Amount	Net Dollar Change	Net Percentage Change
Operating revenue	1,427,040	1,412,462	14,578	1.03%
<b>Total revenue</b>	<b>1,427,040</b>	<b>1,412,462</b>	<b>14,578</b>	<b>1.03%</b>
Depreciation expenses	355,297	357,547	(2,250)	-0.63%
Operating expense	1,269,311	1,263,447	5,864	0.46%
Non operating expense	118,875	146,157	(27,282)	-18.67%
<b>Total expense</b>	<b>1,743,483</b>	<b>1,767,151</b>	<b>(23,668)</b>	<b>-1.34%</b>
Grants & Capital Contributions	13,966	18,480	(4,514)	-24.43%
Net (Loss) Income	(316,443)	(354,689)	38,246	-10.78%
Net position, beginning	5,668,790	6,004,768	(335,978)	-5.60%
Net position, ending	5,366,313	5,668,790	(302,477)	-5.34%

**ESTILL COUNTY WATER DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**Years ended December 31, 2012 and 2011**

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As reported on the statement of revenues, expenses, and changes in net position, net position decreased by \$ 302,477 for the year 2012.

### **CAPITAL ASSETS**

On December 31, 2012, the District's investment in capital assets, net of depreciation, totaled \$13,857,777, which is a decrease of \$83,358, or 0.60%, over the capital asset balance of \$13,941,135 at December 31, 2011.

### **LONG-TERM DEBT**

As of December 31, 2012, the District had long-term debt of \$2,762,600 compared to \$2,843,400 at December 31, 2011, including current portion. During the year ended December 31, 2012, the District paid \$80,800 of principal payments on the long-term debt compared to \$77,100 in 2011.

### **OTHER SIGNIFICANT MATTERS**

The Estill County Water District #1 has been working on the Phase 10 Water Line Project. The purpose of the project consists of the replacement of approximately 21 miles of older deteriorating/undersized water lines in the existing water distribution system. Additionally, 2 existing pump stations will be replaced due to age and pumping capacity. The loan indebtedness for the Phase 10 project is \$1,699,000. The District has applied, to the Kentucky Public Service Commission, for a 21.5% rate increase to offset the debt services.

### **CONTACT INFORMATION**

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning this report or request for additional information should be addressed to the Office Manager, Audrea Miller, at Estill County Water District, Irvine, Kentucky, 40336 or by calling (606) 723-3795.

ESTILL COUNTY WATER DISTRICT NO. 1

STATEMENTS OF NET ASSETS  
December 31, 2012 and 2011

ASSETS	2012	2011
<b>CURRENT ASSETS</b>		
Cash	\$ (61,526)	\$ (81,862)
Accounts receivables, less allowance for doubtful accounts 2012 \$8,906; 2011 \$10,054	173,896	184,725
Material and supplies	21,537	21,537
Prepaid expenses	15,350	17,017
Intercompany loans	<u>65,249</u>	<u>22,775</u>
Total current assets	<u>214,506</u>	<u>164,192</u>
<b>RESTRICTED ASSETS</b>		
Cash	325,645	447,978
Customer deposits	<u>52,777</u>	<u>51,766</u>
Total restricted assets	<u>378,422</u>	<u>499,744</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Utility systems	13,235,618	13,252,368
Construction in progress	<u>29,231</u>	<u>24,831</u>
	13,264,849	13,277,199
Less accumulated depreciation	<u>(5,564,410)</u>	<u>(5,225,863)</u>
	7,700,439	8,051,336
Total assets	<u>\$ 8,293,367</u>	<u>\$ 8,715,272</u>

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

<b>LIABILITIES AND EQUITY</b>	2012	2011
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 41,535	\$ 81,395
Other accrued liabilities	<u>19,168</u>	<u>17,410</u>
Total current liabilities	60,703	98,805
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Accrued interest on bonds	50,974	52,511
Customer deposits	52,777	51,766
Current portion of long-term debt	<u>81,800</u>	<u>80,800</u>
Total current liabilities payable from restricted assets	<u>185,551</u>	<u>185,077</u>
<b>LONG-TERM DEBT, less current portion</b>	<u>2,680,800</u>	<u>2,762,600</u>
Total liabilities	<u>2,927,054</u>	<u>3,046,482</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	7,051,931	7,037,965
Retained earnings (deficit)		
Restricted	378,422	442,244
Unrestricted	<u>(2,064,040)</u>	<u>(1,811,419)</u>
Total net assets	<u>5,366,313</u>	<u>5,668,790</u>
	<u>\$ 8,293,367</u>	<u>\$ 8,715,272</u>

ESTILL COUNTY WATER DISTRICT NO. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Water - residential	\$ 1,270,921	\$ 1,157,344
Water - commercial	101,582	198,201
Other operating income	54,537	57,148
Total operating revenue	<u>1,427,040</u>	<u>1,412,693</u>
OPERATING EXPENSES		
Water purchases	590,249	603,646
Salaries and wages	270,637	265,808
Employee benefits	169,762	153,360
Power purchases	54,840	55,105
Operation materials	18,336	21,594
Office supplies and postage	24,246	32,042
Legal and accounting	11,693	10,755
Engineering	4,342	6,651
Advertising	32	179
Contract - other	8,892	13,348
Transportation	21,188	23,976
Insurance	13,183	16,674
Unemployment insurance	1,629	1,494
Depreciation	355,297	357,547
PSC assessment	4,515	3,667
Utilities	6,203	6,376
Maintenance	38,641	38,451
Miscellaneous	13,718	10,321
Total operating expenses	<u>1,607,403</u>	<u>1,620,994</u>
OPERATING (LOSS)	<u>(180,363)</u>	<u>(208,301)</u>
NONOPERATING INCOME (EXPENSE)		
Interest income	922	911
Interest expense	(123,763)	(127,513)
Other	(13,239)	(19,555)
Total nonoperating (expense)	<u>(136,080)</u>	<u>(146,157)</u>
NET (LOSS) BEFORE CONTRIBUTIONS	(316,443)	(354,458)
GRANTS AND CAPITAL CONTRIBUTIONS	<u>13,966</u>	<u>18,480</u>
NET (LOSS) INCOME	(302,477)	(335,978)
PRIOR PERIOD ADJUSTMENT	- -	- -
NET ASSETS, BEGINNING OF YEAR	<u>5,668,790</u>	<u>6,004,768</u>
NET ASSETS, END OF YEAR	<u>\$ 5,366,313</u>	<u>\$ 5,668,790</u>

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

ESTILL COUNTY WATER DISTRICT NO. 1

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2012 and 2011

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Receipts from customers	\$ 1,396,406	\$ 1,420,607
Payments to suppliers	(849,679)	(773,938)
Payments to employees	(440,399)	(419,168)
Other receipts (payments)	(13,239)	(19,555)
Net cash provided by operating activities	<u>93,089</u>	<u>207,946</u>
CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments	(80,800)	(77,100)
Interest payments	(123,763)	(127,513)
Purchase of property, plant and equipment	(4,400)	-
Contributed capital	<u>13,966</u>	<u>18,480</u>
Net cash (used) in capital and related financing activities	(194,997)	(186,133)
CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
Cash from interest	<u>922</u>	<u>911</u>
NET (DECREASE)INCREASE IN CASH	(100,986)	22,724
CASH, BEGINNING OF YEAR	417,882	395,158
CASH, ENDING OF YEAR	<u>\$ 316,896</u>	<u>\$ 417,882</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating (loss)	\$ (180,363)	\$ (208,301)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	355,297	357,547
Cash from other income	(13,239)	(19,555)
(Increase) decrease in current assets:		
Accounts receivable, customers	10,829	8,710
Other receivables	1,667	5,013
Materials and supplies	-	(2,986)
Prepaid expenses	(42,474)	247
(Decrease) increase in current liabilities:		
Accounts payable	(39,860)	68,329
Accrued liabilities	221	(15)
Customer deposits	1,011	(1,043)
Net cash provided by operating activities	<u>\$ 93,089</u>	<u>\$ 207,946</u>
NONCASH TRANSACTIONS AFFECTING FINANCIAL POSITION		
Contributions of fixed assets	<u>\$ 13,966</u>	<u>\$ 18,480</u>

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of Activities**

The Estill County Water District No. 1 is an agency of the Estill County Fiscal Court. The Water District is governed by a Board of Commissioners appointed by the Estill County Fiscal Court.

The Estill County Water District No. 1 applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The District also applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before December 31, 2006, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

#### **Method of Accounting**

The Estill County Water District No. 1 is accounted for as a governmental enterprise fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis which are financed primarily through user charges. The accounts are maintained on the accrual basis of accounting.

#### **Fixed assets**

Fixed assets are recorded at cost and depreciated on a straight line basis over their estimated useful lives. See Note 2 for classification of fixed assets.

#### **Nonmonetary Transactions**

The Estill County Water District No. 1 accepts utility installations built by contractors upon inspection. The utility installations are added to fixed assets and contributed capital at the contractor's cost.

#### **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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Amortization**

Bond issue costs are being amortized and charged to expense over the life of the outstanding revenue bonds by use of the straight-line method.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Cash equivalents**

For the purpose of the statements, the District considers all investments with a maturity of three months or less when purchased to be cash equivalents.

**Materials and supplies**

Materials and supplies are stated at cost. Cost is determined using the "first-in, first-out" method.

NOTE 2. FIXED ASSETS

Classification of fixed assets as of December 31, 2012 and 2011 consisted of the following:

	2012	2011
Land and structures	\$ 1,606,331	\$ 1,606,331
Pumping and distribution equipment	9,472,919	9,472,919
Services and meters	1,778,913	1,778,913
Other plant equipment	33,112	33,112
Office equipment and furniture	51,349	51,349
Transportation equipment	158,784	175,534
Other general equipment	134,210	134,210
	<u>\$ 13,235,618</u>	<u>\$ 13,252,368</u>

Depreciation expense charged to operations during the years ended December 31, 2012 and 2011 amounted to \$355,297 and \$357,547 respectively.

NOTE 3. CASH AND INVESTMENTS

Kentucky Revised Statutes authorize municipalities 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 and deposits in national or state chartered banks insured by federal agencies. Larger amounts can be deposited in savings and loan associations and banks providing such institutions pledge obligations of the United States government or its agencies as security.

As of December 31, 2012 and 2011 the District is in compliance with this requirement.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. LONG-TERM DEBT

The Estill County Water District No. 1's bonded indebtedness and other long-term notes at December 31, 2012 are summarized as follows:

	Rate	Original Issue	Total 2011	Total 2011
1976 Issue	5.00%	\$ 350,000	\$ 74,000	\$ 90,000
1991 Issue Series A	5.00%	521,000	371,000	383,000
1991 Issue Series B	5.00%	101,000	72,600	74,900
1996 Issue	4.50%	505,000	405,000	414,500
2000 Issue	4.50%	975,000	834,000	850,000
2002 Issue	3.00% - 4.75%	230,000	120,000	132,000
2006 Issue	4.125%	945,000	886,000	899,000
			<u>2,762,600</u>	<u>2,843,400</u>
Less current maturities			81,800	80,800
			<u>\$ 2,680,800</u>	<u>\$ 2,762,600</u>

All bond interest is payable semiannually on February 1st and August 1st, all principal payments are payable annually on February 1st.

The combined bond debt service requirements, as of December 31, 2012 are as follows:

Year	Principal	Interest	Total
2013	\$ 81,800	121,603	\$ 203,403
2014	88,000	117,735	205,735
2015	92,100	113,612	205,712
2016	96,700	109,265	205,965
2017	80,400	105,216	185,616
Thereafter	2,323,600	1,298,372	3,621,972
	<u>\$ 2,762,600</u>	<u>\$ 1,865,803</u>	<u>\$ 4,628,403</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. PENSION FUND

The Estill County Water District is a participating employer of the County Employee's Retirement System (CERS), which is a multi-employer defined benefit plan that covers substantially all regular full-time employees of the District. Retirement benefits are provided for through legislative action of the Kentucky General Assembly and are funded by employee contributions which are deducted from employees' wages and by employer-paid contributions. The General Assembly sets the employee contributions rates, currently 5%, and the Retirement Systems' Board of Trustees sets the employer contribution rates, currently 16.93%. Each employer is notified prior to each fiscal year of any change in the contribution rates.

The Retirement Systems' administrative expenses are subject to approval by the Kentucky General Assembly and are paid from the State's Retirement Allowance Account.

Employer contributions for the years ended December 31, 2012 and 2011, under the current plan, amounted to \$46,195 and \$45,816.

### NOTE 7. COMPENSATED ABSENCES

The Estill County Water District's vacation policy entitles an employee to two weeks of vacation time after one full year of employment, three weeks with fifteen years of service and four weeks with twenty years of service. At the end of each year employees are paid for any unused vacation time.

The District's personal/sick leave policy allows for six personal days and six sick days after one year of full time employment. Employees may carry over no more than fifteen personal and sick days from one year to the next. Any unused personal days will be transferred to vacation days in December to replace any vacation days used and employees are compensated accordingly. Any unused sick days over the fifteen are lost at the end of each year.

### NOTE 8. COMPLIANCE WITH BOND ORDINANCE

The 2006, 2002, 2000, 1996, and 1991 bonds are all on parity with each other. However, these bond are also subject to the vested rights and priorities in favor of the 1964 and 1976 bond issues. The 1976 bond issue is subject to the vested rights and priorities in favor of the 1964 bond issue. While the 1964 bond issue takes priority over all other water bond issues.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 8. COMPLIANCE WITH BOND ORDINANCE (CONTINUED)

#### **Bond Debt Service**

All of the bond issues require the Estill County Water District No. 1 to set aside in a sinking fund monthly deposits equal to one-sixth of the next interest payment and one-twelfth of the next principal payment. The 1964, 1976 and 2002 water bond issues also require a bond reserve account be established for use in payment of the bonds. The 1964 issue's reserve account needs to be maintained in the amount of \$34,800, while the 1976 bond issue reserve account must maintain a balance of \$21,600. The 1984 bond issue required the amount of \$21,600 be increased to \$41,600. However, the 1984 bond issue was refinanced in July 2002, and the new issue required that this reserve fund continue to be maintained at \$41,600. All of these reserve accounts must be maintained as long as there are any outstanding bond issues.

#### **Depreciation Reserve**

The 1964, 1976 and 2002 water bond issues requires the Estill County Water District No. 1 to accumulate an amount up to \$27,000, to be used for renewals, replacements and/or additions to property, plant and equipment. The 1991 water bond issue series A and B require the District to accumulate an amount up to \$37,200 in the depreciation reserve account, while the 1996 water bond issue requires a balance of \$65,400 be accumulated in a depreciation reserve account. The 2000 water bond issue requires the District to transfer \$455 monthly into a depreciation reserve account for the life of the bond issue. The 2006 water bond issue requires the District to transfer \$425 monthly into a depreciation reserve account until there is accumulated a sum of at least \$51,000. This monthly requirement for the 2006 bond issue is scheduled to start upon completion of the project as certified by the engineers.

#### **Operations and Maintenance Account**

The 1964, 1976 and 1991 water bond issues require the Estill County Water District No. 1 to place 90% of the remaining revenues, after the above mentioned transfers have been made, into an operations and maintenance account to be used for operations and maintenance expenses of the property, plant and equipment. While the 1996, 2000, 2002, and 2006 water bond issues require the District to set aside out of the remaining revenues an amount equal to two months operations, based on the District's estimated budget.

The Estill County Water District No. 1 is not in substantial compliance with the bond ordinance.

ESTILL COUNTY WATER DISTRICT NO. 1

SCHEDULE OF REVENUE BOND DEBT SERVICE  
For the Year Ended December 31, 2012

Maturity Date	2006 Issue		2002 Issue		2000 Issue		1996 Issue	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	13,000	36,279	12,000	5,045	16,000	37,170	9,500	18,011
2014	14,000	35,723	13,000	4,545	17,000	36,428	10,500	17,561
2015	14,000	35,145	14,000	3,988	18,000	35,640	10,500	17,089
2016	15,000	34,547	15,000	3,364	19,000	34,807	11,000	16,605
2017	15,000	33,928	16,000	2,682	20,000	33,930	11,500	16,099
2018	16,000	33,289	16,000	1,962	20,000	33,030	12,000	15,570
2019	17,000	32,608	17,000	1,203	22,000	32,085	12,500	15,019
2020	17,000	31,907	17,000	404	22,000	31,095	13,500	14,434
2021	18,000	31,185			24,000	30,060	13,500	13,826
2022	19,000	30,422			24,000	28,980	14,500	13,196
2023	20,000	29,618			26,000	27,855	15,000	12,532
2024	20,000	28,792			27,000	26,663	16,000	11,835
2025	21,000	27,947			28,000	25,425	16,500	11,104
2026	22,000	27,060			29,000	24,142	17,000	10,350
2027	23,000	26,132			31,000	22,793	18,000	9,562
2028	24,000	25,162			32,000	21,375	19,000	8,730
2029	25,000	24,152			33,000	19,912	19,500	7,864
2030	26,000	23,100			35,000	18,383	20,500	6,964
2031	27,000	22,007			36,000	16,785	21,500	6,019
2032	28,000	20,872			38,000	15,120	22,500	5,029
2033	29,000	19,697			40,000	13,365	23,500	3,994
2034	31,000	18,459			41,000	11,542	24,500	2,913
2035	32,000	17,160			44,000	9,630	25,500	1,788
2036	33,000	15,819			45,000	7,628	27,000	607
2037	35,000	14,417			48,000	5,535		
2038	36,000	12,952			49,000	3,352		
2039	37,000	11,447			50,000	1,125		
2040	39,000	9,879						
2041	41,000	8,229						
2042	42,000	6,518						
2043	44,000	4,744						
2044	46,000	2,888						
2045	47,000	969						
	<u>\$ 886,000</u>	<u>\$ 733,053</u>	<u>\$ 120,000</u>	<u>\$ 23,193</u>	<u>\$ 834,000</u>	<u>\$ 603,855</u>	<u>\$ 405,000</u>	<u>\$ 256,701</u>

1991 Issue Series A		1991 Issue Series B		1976 Issue		Totals	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
12,000	18,250	2,300	3,573	17,000	3,275	81,800	121,603
13,000	17,625	2,500	3,453	18,000	2,400	88,000	117,735
14,000	16,950	2,600	3,325	19,000	1,475	92,100	113,612
14,000	16,250	2,700	3,192	20,000	500	96,700	109,265
15,000	15,525	2,900	3,052			80,400	105,216
16,000	14,750	3,000	2,905			83,000	101,506
16,000	13,950	3,200	2,750			87,700	97,615
18,000	13,100	3,300	2,587			90,800	93,527
18,000	12,200	3,500	2,418			77,000	89,689
19,000	11,275	3,600	2,240			80,100	86,113
20,000	10,300	3,900	2,053			84,900	82,358
21,000	9,275	4,100	1,853			88,100	78,418
22,000	8,200	4,300	1,642			91,800	74,318
23,000	7,075	4,500	1,423			95,500	70,050
24,000	5,900	4,700	1,192			100,700	65,579
25,000	4,675	5,000	950			105,000	60,892
26,000	3,400	5,200	695			108,700	56,023
27,000	2,075	5,500	428			114,000	50,950
28,000	700	5,800	145			118,300	45,656
						88,500	41,021
						92,500	37,056
						96,500	32,914
						101,500	28,578
						105,000	24,054
						83,000	19,952
						85,000	16,304
						87,000	12,572
						39,000	9,879
						41,000	8,229
						42,000	6,518
						44,000	4,744
						46,000	2,888
						47,000	969
<u>\$ 371,000</u>	<u>\$ 201,475</u>	<u>\$ 72,600</u>	<u>\$ 39,876</u>	<u>\$ 74,000</u>	<u>\$ 7,650</u>	<u>\$ 2,762,600</u>	<u>\$ 1,865,803</u>

# Ludwig, Blair & Bush, PLLC

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners  
Estill County Water District No. 1  
Irvine, Kentucky

We have audited the accompanying statements of financial position of the Estill County Water District No. 1, as of and for the year ended December 31, 2012, and have issued our report thereon dated June 4, 2013. 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.

### Compliance

As part of obtaining reasonable assurance about whether the Estill County Water District No. 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Estill County Water District No. 1's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Winchester, Kentucky  
June 4, 2013

*Ludwig, Blair & Bush, PLLC*

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Commissioners  
Estill County Water District No. 1  
Irvine, Kentucky

We have performed the procedure described in the second paragraph of this report, which was agreed to by the Estill County Water District No. 1 and the Public Service Commission of the Commonwealth of Kentucky, solely to assist them in determining whether the electronic submission of certain information agrees with the related hard copy documents. The Estill County Water District No. 1 is responsible for accuracy and completeness of the electronic submission. This agreed-upon procedure agreement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submissions with the corresponding printed documents. Thus, the result of our performance of our agreed-upon procedures indicate no differences between the electronically submitted information and the hard copy documents.

We were engaged to perform an audit of the financial statements of the Estill County Water District No. 1 as of and for the year ended December 31, 2012, and have issued our report thereon dated June 4, 2013. The information included in the hard copy documents was included within the scope, or was a by-product of that audit. Further, our opinion on the fair presentation of the supplemental financial data templates dated June 4, 2013, was expressed in relation to the basic financial statements of the Estill County Water District No. 1 taken as a whole.

A copy of the financial statement package, which includes the auditor's reports, is available in its entirety from the Estill County Water District No. 1. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the Public Service Commission of the Commonwealth of Kentucky.

This report is intended solely for the information and use of the Estill County Water District No. 1 and the Public Service Commission of the Commonwealth of Kentucky, and is not intended to be and should not be used by anyone other than these specified parties.

*Ludwig, Blair & Bush, PLLC*

Winchester, Kentucky  
June 4, 2013