

Complied Financial Statements

Hickory Water District

December 31, 2012

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COMMISSION



To the Board of Commissioners

Hickory Water District
Mayfield, KY 42066

We have compiled the accompanying statement of net assets of the Hickory Water District as of December 31, 2012, and the related statement of revenues, expenses and changes in net assets, and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the accounting principles prescribed or permitted by the Public Service Commission, which practices differ from accounting principles generally accepted in the United States of America.

The management of the Hickory Water District, is responsible for the preparation and fair presentation in accordance with the prescribed accounting principles by the Public Service Commission and for designing, implementing, and maintain internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist the management of the Hickory Water District, in presenting financial information in the form of financial statements without undertaking to obtain or provide assurance that there are no material modifications that should be made to the financial statements.

Management has not presented the management's discussion and analysis information that the Governmental Accounting Standards Board has determined is required to supplement, although not required to be a part of, the basic financial statements. We have compiled supplementary information from information that is the representation of management, without audit or reviewed. Accordingly we do not express an opinion or provide any assurance on the supplementary information.

Romaine & Associates, PLLC

Mayfield, Kentucky
January 31, 2013

HICKORY WATER DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2012

ASSETS	<u>December 31, 2012</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 28,399
Customer accounts receivable	37,826
Prepaid Insurance	6,314
Investments	122,173
Total unrestricted current assets	<u>194,712</u>
Cash and cash equivalents - Restricted	26,400
Total restricted current assets	<u>26,400</u>
Total current assets	<u>221,112</u>
NONCURRENT ASSETS	
Utility plant in service	5,079,820
Less accumulated depreciation	(2,696,245)
Total noncurrent assets	<u>2,383,575</u>
TOTAL ASSETS	<u>\$ 2,604,687</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 27,520
Customer deposits	14,590
Land condemnation escrow	5,478
Current portion long-term debt	27,217
Total current liabilities	<u>74,805</u>
Long-term debt	220,451
Total liabilities	<u>295,256</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,135,907
Restricted	26,400
Unrestricted, deficit	147,124
Total net assets	<u>2,309,431</u>
TOTAL LIABILITES AND NET ASSETS	<u>\$ 2,604,687</u>

HICKORY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUE	\$	518,433
OPERATING EXPENSE		
Purchased water		19,180
Purchased power		38,166
Chemicals		55,000
Materials and supplies		31,527
Advertising		386
Contractual services		294,173
Bad debts		2,805
Insurance		6,530
Equipment rental		20,750
Miscellaneous		2,655
Property Taxes		39
Salaries & Wages		7,200
Depreciation and amortization		76,386
Utility Assessment Fee		804
Total operating expenses		555,601
Operating income (loss)		(37,168)
NONOPERATING REVENUES (EXPENSES)		
Interest expense		(4,887)
Investment income		5,275
Nonoperating revenues (expenses)		388
Income before capital contributions		(36,780)
Capital contributions		217,630
Increase (Decrease) in net assets		180,850
NET ASSETS		
Beginning of period		2,128,581
End of period	\$	2,309,431

HICKORY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$	517,689
Cash payments to suppliers for goods and services		(476,865)
Customer deposits received (returned)		1,600
Net cash provided by operating activities		42,424

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments on debt		(26,734)
Utility plant additions and improvements		(214,899)
Capital contributions		217,630
Interest paid on customer deposits		(67)
Interest paid on long-term debt		(4,819)
Net cash provided by (used for) capital and related financing activities		(28,889)

Net increase in cash and cash equivalents		13,535
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CASH AND CASH EQUIVALENTS - BEGINNING OF THE PERIOD

		41,264
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CASH AND CASH EQUIVALENTS - END OF THE PERIOD

	\$	54,799
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RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$	(37,166)
Adjustments to reconcile operating income (loss) to cash provided by operating activities:		
Depreciation and amortization		76,386
Changes in assets and liabilities:		
Accounts receivable		(754)
Prepaid Insurance		(4,752)
Accounts payable and accrued expenses		7,110
Customer deposits		1,600
Net cash provided by operating activities	\$	42,424

SUPPLEMENTAL INFORMATION

Interest Paid	\$	4,886
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Note 1. Description of Entity & Significant Accounting Policies

Hickory Water District is engaged in providing water supply to approximately 1,319 customers who live in the Northern Graves County, Kentucky area and the northernmost city limits of Mayfield, Kentucky. The water district was created in 1964 under Chapter 14 of the Kentucky Revised Statutes.

In evaluating how to define Hickory Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

Basis of Presentation and Accounting:

As stated in Kentucky Revised Statutes (KRS) 278.012, "any water association formed for the purpose of furnishing water services to the general public pursuant to KRS Chapter 273 is deemed to be and shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission". In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. This uniform system of accounts is presented on the accrual basis in accordance with practices prescribed by the Public Service Commission. In accordance with the Public Service Commission's regulations, costs associated with hook-up fees are capitalized as meters, installations and services. This practice differs from generally accepted accounting principles under which these costs and the related fees are recorded as operating expenses and revenues. Except for this regulatory difference, the Public Service Commission prescribes the use of Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before December 31, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has not adopted the provisions of FASB No. 71, *Accounting for the Effects of Certain Types of Regulations*.

Note 1. Description of Entity & Significant Accounting Policies (Continued)

Basis of Presentation and Accounting: (Continued)

The District's financial statements (including the related notes) are presented in accordance with GASB No. 34, Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments and related standards, except as noted herein. This standard provided significant required changes in terminology; recognition of contributions in the statement of revenues, expenses and changes in net assets; inclusion of a management's discussion and analysis as supplementary information; and other changes.

The Hickory Water District is operated as a proprietary and/or enterprise fund. Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – 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.

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 statements of net assets regulatory basis. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted, constraints imposed by creditors/grantors/laws/or contributions; and unrestricted components, all other. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, unrestricted resources are used first.

Revenues and Expenses:

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities.

Property and Equipment:

Property and equipment purchased or constructed are stated at cost. The cost of meters, including installation, is capitalized. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Expenses for maintenance and repairs that do not increase the useful life of the asset are charged to operations as they are

Note 1. Description of Entity & Significant Accounting Policies (Continued)

Property and Equipment:- (Continued)

incurred. The District does not have a particular dollar amount threshold for capitalization purposes.

Income Taxes:

The Hickory Water District is not subject to income taxes.

Contributed Capital:

The District has adopted Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires governments to recognize capital contributions to proprietary funds as revenues, instead of contributed capital. Prior to implementation GASB No. 33, the fair market value of donated property received by the District, impact fees, tap on fees and grants which were restricted for the acquisition or construction of capital assets, were recorded as contributed capital.

Statement of Cash Flows:

For purposes of reporting cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Reclassifications:

For clarification purposes, reclassifications have been made to certain previously reported amounts.

Net Assets:

Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital assets – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributed to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net assets component as the unspent proceeds.

Note 1. Description of Entity & Significant Accounting Policies (Continued)

Net Assets-(Continued)

Restricted – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets- This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Note 2. Cash and Investments

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute. As of December 31, 2012 all deposits were adequately covered by either Federal Depository Insurance or other investments pledged.

Note 3. Maintenance and Replacement Reserve

In accordance with the loan agreement with the Kentucky Infrastructure Authority, a maintenance and replacement reserve account is required to receive an amount equal to 10% of the amount of loan payments until the amount in such account is equal to 5% of the original principal amount of the loans. As of December 31, 2012 the reserve account balance was \$26,400. As of December 31, 2012 the maintenance and replacement reserve account was fully funded.

Note 4. Use of Estimates

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

Note 5. Long-Term Debt

Kentucky Infrastructure Authority bonds bearing interest of 1.8%. Principal & interest are payable semi-annually on the bond. Principal on the bond is payable in accordance with the following schedule with interest payable semi-annually:

<u>MATURITY DATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2013	\$ 4,336	\$ 27,217
2014	3,844	27,710
2015	3,343	28,210
2016	2,832	28,721
2017	2,570	29,241
2018-2021	4,299	106,569
	<u>\$ 21,224</u>	<u>\$ 247,668</u>

Change in long-term debt for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Bonds Payable	<u>\$ 274,402</u>	<u> </u>	<u>\$ 26,734</u>	<u>\$ 247,668</u>
Total	<u>\$ 274,402</u>	<u>\$ -</u>	<u>\$ 26,734</u>	<u>\$ 247,668</u>

Note 6. Capital Assets

A summary of Hickory Water District's change in capital assets for the year is as follows:

Description	Beginning Balance	Additions	Deletions	Ending Balance
Land & Land Rights	\$ 21,417	\$ -	\$ -	\$ 21,417
Structures & Improvements	114,960	-	-	114,960
Wells and Springs	202,510			202,510
Pumping Equipment	32,573			32,573
Water Treatment Equipment	43,906		-	43,906
Distribution Reservoirs	1,402,797		-	1,402,797
Transmission and Distribution Mains	2,371,215	208,595	-	2,579,810
Services	98,210		-	98,210
Meters	460,414	6,304	-	466,718
Hydrants	74,190		-	74,190
Plant and Misc Equipment	26,034		-	26,034
Furniture and Equipment	16,695		-	16,695
Total at Historical Cost	<u>4,864,921</u>	<u>214,899</u>	<u>-</u>	<u>5,079,820</u>
Less: Accumulated Depreciation				
Structures & Improvements	(89,806)	(2,393)	-	(92,199)
Wells and Springs	(165,166)	(2,546)		(167,712)
Pumping Equipment	(22,026)	(1,186)		(23,212)
Water Treatment Equipment	(38,751)	(1,077)	-	(39,828)
Distribution Reservoirs	(811,877)	(24,625)	-	(836,502)
Transmission and Distribution Mains	(1,089,970)	(38,108)	-	(1,128,078)
Services	(95,530)	(148)	-	(95,678)
Meters	(220,238)	(4,880)	-	(225,118)
Hydrants	(66,846)	(188)	-	(67,034)
Plant and Misc Equipment	(6,733)	(868)	-	(7,601)
Furniture and Equipment	(12,916)	(367)	-	(13,283)
Total Accumulated Depreciation	<u>(2,619,859)</u>	<u>(76,386)</u>	<u>-</u>	<u>(2,696,245)</u>
Capital Assets, Net	<u>\$ 2,245,062</u>	<u>\$ 138,513</u>	<u>\$ -</u>	<u>\$ 2,383,575</u>

Note 7. Customer Dependence

The District's largest customer represents less than 10% of the (gross) operating revenue.

Note 8. Budget

The budget for the proprietary fund operation is prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable expenditure is expected to be made. Budgeted appropriations lapse at year-end.

Note 9. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The District carries commercial insurance for risk of loss. The District did not have settled claims that exceeded the District's commercial insurance coverage in any of the past three years.

Note 10. Subsequent Events

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 31, 2013, the date financial statements were available to be issued. Management has disclosed that Hickory Water District has merged with Graves County Water District effect December 31, 2012.

Note 11. Restatement of Net Assets

Advances for construction in the amount of \$55,381 were reclassified into net assets during the year.