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COMMISSION

NEBO WATER DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2012

NEBO WATER DISTRICT

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Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To The Commissioners
Nebo Water District
Nebo, Kentucky

I have audited the financial statements of the governmental activities, business-type activities, major funds, and remaining fund information, which collectively comprise the basic financial statements, of the Nebo Water District ("District") as of and for the year ended December 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and remaining fund information of the District at December 31, 2012, and the changes in financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The individual fund statements described in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 30, 2013, on my consideration of internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, grants and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of my audit.

The Nebo Water District has not presented the management's discussion and analysis section that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

Providence, Kentucky
January 30, 2013

**NEBO WATER DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2012**

| | <u>Business-Type Activities</u> |
|-------------------------------------|-------------------------------------|
| Assets | |
| Current Assets | |
| Cash and cash equivalents | \$ 71,210 |
| Accounts receivable | 107,643 |
| Inventories | 42,450 |
| Prepaid insurance | <u>11,104</u> |
| Total current assets | <u>232,407</u> |
| Noncurrent Assets | |
| Restricted cash | 277,908 |
| Capital assets, net of depreciation | 1,859,117 |
| Unamortized bond issue costs | <u>7,290</u> |
| Total noncurrent assets | <u>2,144,315</u> |
| Total assets | <u>2,376,722</u> |
| Liabilities | |
| Current Liabilities | |
| Accounts payable | 27,212 |
| Accrued expenses | 10,827 |
| Customer deposits | 3,150 |
| Current portion of bonds payable | <u>23,000</u> |
| Total current liabilities | <u>64,189</u> |
| Noncurrent Liabilities | |
| Noncurrent portion of bonds payable | <u>196,000</u> |
| Total noncurrent liabilities | <u>196,000</u> |
| Total liabilities | <u>260,189</u> |
| Net Assets | |
| Contributed capital | 2,243,711 |
| Retained earnings (deficit) | <u>(127,178)</u> |
| Total net assets | <u><u>\$ 2,116,533</u></u> |

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

**NEBO WATER DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Net (Expense) Revenue and Changes in Net Assets | | | | | |
|---------------------------------------|--|--|--|----------------------------|---------------------------------|--------------|
| Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business- Type Activities | Total |
| Functions/Programs | | | | | | |
| Business-type activities | | | | | | |
| Water | \$ (1,157,397) | \$ 1,144,598 | \$ 8,400 | \$ - | \$ (4,399) | \$ (4,399) |
| Total business-type activities | (1,157,397) | 1,144,598 | 8,400 | - | (4,399) | (4,399) |
| Total government | \$ (1,157,397) | \$ 1,144,598 | \$ 8,400 | \$ - | \$ - | (4,399) |
| | | | | General Revenues: | | |
| | | | | Interest income | 1,601 | 1,601 |
| | | | | Total general revenues | 1,601 | 1,601 |
| | | | | Change in Net Assets | (2,798) | (2,798) |
| | | | | Net assets, beginning | 2,119,331 | 2,119,331 |
| | | | | Net assets, ending | \$ 2,116,533 | \$ 2,116,533 |

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

**NEBO WATER DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2012**

| | <u>Business-type Activities Enterprise Fund</u> |
|-------------------------------------|---|
| Assets | |
| Current Assets | |
| Cash and cash equivalents | \$ 71,210 |
| Accounts receivable | 107,643 |
| Inventories | 42,450 |
| Prepaid insurance | <u>11,104</u> |
| Total current assets | <u>232,407</u> |
| Noncurrent Assets | |
| Restricted cash | 277,908 |
| Capital assets, net of depreciation | 1,859,117 |
| Unamortized bond issue costs | <u>7,290</u> |
| Total noncurrent assets | <u>2,144,315</u> |
| Total assets | <u>2,376,722</u> |
| Liabilities | |
| Current Liabilities | |
| Accounts payable | 27,212 |
| Accrued expenses | 10,827 |
| Customer deposits | 3,150 |
| Current portion of bonds payable | <u>23,000</u> |
| Total current liabilities | <u>64,189</u> |
| Noncurrent Liabilities | |
| Noncurrent portion of bonds payable | <u>196,000</u> |
| Total noncurrent liabilities | <u>196,000</u> |
| Total liabilities | <u>260,189</u> |
| Net Assets | |
| Contributed capital | 2,243,711 |
| Retained earnings (deficit) | <u>(127,178)</u> |
| Total net assets | <u><u>\$ 2,116,533</u></u> |

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

**NEBO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>Business-type Activities Enterprise Fund</u> |
|--|---|
| Operating Revenues: | |
| Charges for services | \$ 1,138,728 |
| Other income | <u>5,870</u> |
| Total operating revenues | <u>1,144,598</u> |
| Operating Expenses: | |
| Purchased water | 626,424 |
| Purchased power | 9,893 |
| Salaries and wages | 180,866 |
| Contract services | 17,798 |
| Depreciation | 120,653 |
| Material and supplies | 38,334 |
| Insurance | 14,300 |
| Payroll taxes and benefits | 59,963 |
| Miscellaneous expense | 13,501 |
| Utilities | 8,075 |
| Repairs | 11,081 |
| Office expense | 15,731 |
| Vehicle expense | 16,568 |
| Advertising | <u>3,033</u> |
| Total operating expenses | <u>1,136,220</u> |
| Operating income (loss) | <u>8,378</u> |
| Nonoperating revenues (expenses): | |
| Interest income | 1,601 |
| Interest expense | (20,637) |
| Amortization of bond issue costs | (540) |
| Tap on fees | <u>8,400</u> |
| Total nonoperating revenues (expenses) | <u>(11,176)</u> |
| Change in net assets | (2,798) |
| Total net assets, beginning | <u>2,119,331</u> |
| Total net assets, ending | <u>\$ 2,116,533</u> |

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

**NEBO WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>Business-type Activities Enterprise Fund</u> |
|---|---|
| Cash Flows from Operating Activities | |
| Receipts from customers | \$ 1,138,728 |
| Payments to suppliers | (834,264) |
| Payments to employees | (180,866) |
| Other receipts (payments) | <u>5,870</u> |
| Net cash provided by operating activities | <u>129,468</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Grant revenue | 46,354 |
| Principal paid on bonds and notes payable | (433,000) |
| Interest paid on bonds and notes payable | (20,637) |
| Capital contributions from customers | 8,400 |
| Acquisition of capital assets | <u>(122,057)</u> |
| Net cash (used) in capital and related financing activities | <u>(520,940)</u> |
| Cash Flows from Investing Activities | |
| Interest income | <u>1,601</u> |
| Net increase in cash and cash equivalents | (389,871) |
| Balances, beginning of year | <u>738,989</u> |
| Balances, ending of year | <u><u>\$ 349,118</u></u> |
| Reconciliation of operating income to net cash provided by operating activities | |
| Operating income (loss) | \$ 8,378 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization | 120,653 |
| Changes in assets and liabilities: | |
| (Increase) decrease in accounts receivable | 1,048 |
| (Increase) decrease in inventory | (1,143) |
| (Increase) decrease in prepaid insurance | (836) |
| Increase (decrease) in accounts payable | (4,468) |
| Increase (decrease) in accrued expense | 2,686 |
| Increase (decrease) in customer deposits | <u>3,150</u> |
| Net cash provided by operating activities | <u><u>\$ 129,468</u></u> |

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

**NEBO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012**

Note 1. **Summary of Significant Accounting Policies**

A. **Financial Reporting Entity.**

The Nebo Water District (the "District") was created on September 2, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located in Nebo, Kentucky. The District is comprised of three commissioners who are appointed by the Hopkins County Judge Executive and provides water to customers in Hopkins County, Kentucky.

B. **Basis of Presentation.**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all activities of the District. The government-wide financial statements are divided into two types: governmental activities and business-type activities. The District only has business-type activities due to its reliance to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expense of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers as applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliances.

Governmental funds are those funds through which most governmental functions typically are financial. The District does not maintain governmental funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. Operating expenses for the proprietary funds include the costs of operational and contracted services, revenues and expenses no meeting this definition are reported as non-operating revenues and expenses.

C. **Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts

and reported in the financial statements. Basis of accounting relates to the timing of the measurement made regardless of the measurement focus applied.

The government-wide statements and the fund financial statements for the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned including unbilled water service which is accrued. Expenses are recognized at the time the liability is incurred.

D. **Cash and Investments**

For the purpose of the proprietary fund of the Nebo Water District, cash on hand, cash in bank and certificates of deposits are considered to be cash and cash equivalents.

Unrestricted cash is available to be expended for normal operating costs. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and construction projects.

State statute requires that all deposits and investments in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The District's deposits, including certificates of deposit, were fully collateralized as required by state statutes at December 31, 2012.

At year end, bank balances totaled \$349,118. These balances were fully covered by FDIC Insurance.

E. **Inventory**

Inventory is stated at the lower of cost or market. Cost is determined primarily by the first in first-out method.

F. **Capital Assets**

Capital assets, which include property, plant and equipment are reported in the business-type activities column in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance is recorded as expenses. Renewals and betterments are capitalized. Depreciation is provided in the proprietary fund in an amount sufficient to relate the cost of the depreciable assets, to operations over their estimated lives on the straight-line basis. The service lives range from 3 to 50 years.

Note 2. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

| | <u>Balances January 1</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balances December 31</u> |
|--------------------------------------|-------------------------------|------------------------|--------------------|---------------------------------|
| Business-type Activities | | | | |
| Land and land rights | \$ 38,258 | \$ - | \$ - | \$ 38,258 |
| Structures and improvements | 89,751 | - | - | 89,751 |
| Distribution reservoirs | 707,510 | 118,463 | - | 825,973 |
| Transmission mains | 2,564,162 | - | - | 2,564,162 |
| Water meters | 420,183 | - | - | 420,183 |
| Hydrants | 27,367 | - | - | 27,367 |
| Office equipment | 50,187 | - | - | 50,187 |
| Tools and shop equipment | 166,608 | 3,594 | - | 170,202 |
| Pumping equipment | 73,138 | - | - | 73,138 |
| Communication equipment | 12,981 | - | - | 12,981 |
| Total capital assets | 4,150,145 | 122,057 | - | 4,272,202 |
| Less accumulated depreciation | (2,292,432) | (120,653) | - | (2,413,085) |
| Business-type Activities: | | | | |
| Capital Assets, Net | <u>\$ 1,857,713</u> | <u>\$ 1,404</u> | <u>\$ -</u> | <u>\$ 1,859,117</u> |

Note 3 Noncurrent Liabilities

At December 31, 2012, noncurrent liabilities consisted of the following:

| | <u>Business-type</u> |
|---|--------------------------|
| Bonds payable (Series of 2001) payable to the Kentucky Rural Water Corporation in the amount of \$ 343,000 maturing in annual installments through 2025. Interest is payable semi-annually on January 1 and July 1 at an average of 4.87% per annum and principal is payable annually on January 1. | 96,000 |
| Bonds payable (Series 2007A) payable to the Kentucky Rural Water Corporation in the amount of \$ 168,000 maturing in annual installments through 2022. Interest is payable semi-annually on January 1 and July 1 at a rate of 4.05% per annum and principal is payable annually on January 1. | <u>123,000</u> |
| Total | 219,000 |
| Less amount due in one year | <u>(23,000)</u> |
| Amount due in more than one year | <u>\$ 196,000</u> |

The following is a summary of the revenue bond transaction of the District for the year ended December 31, 2011:

| | Balances 12/31/10 | Additions | Reductions | Balances 12/31/11 | Due Within One Year |
|--------------|----------------------|-------------|-------------------|----------------------|------------------------|
| 1979 Series | \$ 271,000 | \$ - | \$ 271,000 | \$ - | \$ - |
| 2001 Series | 248,000 | - | 152,000 | 96,000 | 13,000 |
| 2007A Series | 133,000 | - | 10,000 | 123,000 | 10,000 |
| Total | \$ 652,000 | \$ - | \$ 433,000 | \$ 219,000 | \$ 23,000 |

The following is a bond retirement schedule for each issue:

Series 2001

| Year Ending December 31 | Bonds Due | Interest Due | Total | Bonds Outstanding End of Year |
|----------------------------|------------------|------------------|-------------------|-------------------------------------|
| 2012 | | | | \$ 96,000 |
| 2013 | \$ 13,000 | \$ 12,489 | \$ 25,489 | 83,000 |
| 2014 | 13,000 | 11,795 | 24,795 | 70,000 |
| 2015 | 14,000 | 11,050 | 25,050 | 56,000 |
| 2016 | 15,000 | 10,248 | 25,248 | 41,000 |
| 2017 | 16,000 | 9,392 | 25,392 | 25,000 |
| 2018 | 17,000 | 8,480 | 25,480 | 8,000 |
| 2019 | 8,000 | 3,306 | 11,306 | - |
| Total | \$ 96,000 | \$ 66,760 | \$ 162,760 | |

Series of 2007A

| Year Ending December 31 | Bonds Due | Interest Due | Total | Bonds Outstanding End of Year |
|----------------------------|-------------------|------------------|-------------------|-------------------------------------|
| 2012 | | | | \$ 123,000 |
| 2013 | \$ 10,000 | \$ 4,779 | \$ 14,779 | 113,000 |
| 2014 | 11,000 | 4,354 | 15,354 | 102,000 |
| 2015 | 11,000 | 3,908 | 14,908 | 91,000 |
| 2016 | 12,000 | 3,442 | 15,442 | 79,000 |
| 2017 | 12,000 | 2,957 | 14,957 | 67,000 |
| 2018 | 12,000 | 2,471 | 14,471 | 55,000 |
| 2019 | 13,000 | 1,964 | 14,964 | 42,000 |
| 2020 | 13,000 | 1,438 | 14,438 | 29,000 |
| 2021 | 14,000 | 891 | 14,891 | 15,000 |
| 2022 | 15,000 | 304 | 15,304 | - |
| Total | \$ 123,000 | \$ 26,508 | \$ 149,508 | |

Note 4. Purchase Contracts

The District entered into a purchase agreement with the City of Madisonville, Kentucky. The District is billed monthly for the water usage.

Note 5. Litigation

The District attorney is unaware of any pending litigation against the District.

Note 6. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchased commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION



Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY 42450

**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 Commissioners
Nebo Water District

I have audited the financial statements of the business-type activities and the aggregate remaining fund information of Nebo Water District, as of and for the year ended December 31, 2012, which collectively comprises the Nebo Water District's basic financial statements and have issued my report thereon dated January 30, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Nebo Water District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Nebo Water District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nebo Water District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Nebo Water District's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nebo Water District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, 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.

A handwritten signature in black ink, reading "Michael B. Cusby, CPA, PCC". The signature is written in a cursive style with a large initial 'M'.

Providence, Kentucky
January 30, 2013