

BIG SANDY  
WATER DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
for the year ended December 31, 2013

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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 the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Big Sandy Water District as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Big Sandy Water District as of December 31, 2013, 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.

**Other Matters***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 27, 2014, 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*

Mount Sterling, Kentucky  
May 27, 2014  
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, 2013. This information is presented in conjunction with the audited financial statements that follow this section.

#### **Financial Highlights**

In 2013, Big Sandy Water District had four significant activities that affected our financial status.

In March 2013 BSWD refinanced two KRWFC Loans to obtain one loan at a lower interest rate.

Contract D1 Water Transmission Line & Contract E1 Booster Pump Station—this is an emergency backup with City of Ashland that was actually started in 2006. These projects were bid out in August of 2013. Construction began in 2013 and will finish in 2014. We will be receiving grant money (\$400,000) and obtaining a USDA/RD Loan (\$1,165,000) to pay for this project.

Contract F—US 23/Zelda Loop road bore. In February 2013 a leak was found in a main transmission crossing at US 23 and Zelda Loop. We hired an outside contractor to dig 20' deep and was unable to find/locate leak. We then replaced the road bore. The cost of this project was \$28,720.50. BSWD received a Line of Credit from Town Square Bank to pay for this project.

Contract G—waterline extension for Amber Lane & Autumn Drive with 9 taps installed. The work was completed in June 2013. The cost of this project was \$34,620 and was paid for by Lawrence County Fiscal Court with Coal Severance Money.

#### **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 2013 show a ratio of 2.88 to 1 meaning BSWD has \$2.88 worth of assets to each \$1.00 worth of liabilities. This compares to 2012 at 2.73 to 1 and 2011 at 2.74 to 1.

The Operating Revenue increased 5% in 2013 to \$2,272,833 from \$2,161,830. Forty-four percent of the revenue goes to purchase water. Hourly employees and benefits received 23%.

Charge-off accounts that were deemed not collectable were \$17,948 in 2013 compared to \$13,008 in 2012. This is .80% of revenue. That amount is covered by the \$51,498 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, 2013

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 173,864
Cash and cash equivalents - restricted (note 7)	461,549
Accounts receivable - net of allowance for doubtful accounts (note 1)	219,891
Inventory	54,554
Prepaid expenses	<u>11,819</u>
Total Current Assets	<u>921,677</u>
Noncurrent Assets	
Capital assets: (note 1)	
Work in progress	236,410
Plant, equipment and lines	18,132,289
Less accumulated depreciation	<u>(6,741,336)</u>
Total Noncurrent Assets	<u>11,627,363</u>
Total Assets	<u><u>\$ 12,549,040</u></u>

LIABILITIES

Current Liabilities	
Accrued expenses	\$ 150,138
Notes/Bonds payable (note 2)	374,950
Payable from restricted assets	<u>115,286</u>
Total Current Liabilities	<u>640,374</u>
Noncurrent Liabilities	
Notes/Bonds payable (note 2)	<u>3,711,908</u>
Total Noncurrent Liabilities	<u>3,711,908</u>
Total Liabilities	<u>4,352,282</u>

Net Position

Net investment in capital assets	7,540,505
Restricted	346,263
Unrestricted	<u>309,990</u>
Total Net Position	<u><u>\$ 8,196,758</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, 2013

Revenues	
User fees	\$ 2,244,287
Other water revenue	<u>28,546</u>
Total Revenues	<u>2,272,833</u>
Expenses	
Wages	333,927
Commissioners expense	1,519
Taxes & benefits	177,641
Purchased water & power	997,205
Materials & supplies	122,905
Contractual services	51,148
Trasnsportation expense	36,794
Equipment expense	22,675
Insurance	22,250
Postage	19,431
Bad debt	17,948
Other expense	13,534
Telephone	6,206
Depreciation	<u>414,204</u>
Total Operating Expenses	<u>2,237,387</u>
Operating Income (Loss)	<u>35,446</u>
Nonoperating Revenues (Expenses)	
Tap fees	35,801
Grant income	42,905
Interest income	772
Bond issue expenses	(17,715)
Donated fixed assets	42,775
Other non operating revenues	31,385
Interest expense	<u>(225,198)</u>
Net Nonoperating Revenues (Expenses)	<u>(89,275)</u>
Net Income (Loss)	(53,829)
Total Net Position - beginning	<u>8,250,587</u>
Total Net Position - ending	<u><u>\$ 8,196,758</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 2,288,187
Cash paid to employees	(333,927)
Cash paid for general and administrative expenses	<u>(1,466,412)</u>
Net Cash provided by operating activities	<u>487,848</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	772
Customer deposits	<u>1,300</u>
Net Cash provided by investing activities	<u>2,072</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Note/bond payments	(1,843,789)
Note/bond proceeds	1,396,749
Bond issue expenses	(17,715)
Tap fees	35,801
Grant revenues	42,905
Other non operating revenues	31,385
Purchase of assets	(93,980)
Interest paid	<u>(229,455)</u>
Net Cash used in capital and financing activities	<u>(678,099)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(188,179)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>823,592</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 635,413</u></u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ 35,446
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(Increase)/Decrease in inventory	(1,383)
Depreciation	414,204
(Increase)/Decrease in accounts receivable	15,354
Increase/(Decrease) in accounts payable	<u>24,227</u>
Net cash provided by operating activities	<u><u>\$ 487,848</u></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, 2013

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.

**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 \$131,464 into this fund at December 31, 2013. The required balance at December 31, 2013 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, 2013 was \$84,579. The District had set aside \$130,800.

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, 2013, the carrying amount of the District's deposits was \$635,413 and the bank balance was \$647,603. 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 Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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 \$236,410 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, 2013, eight separate loans had outstanding balances. Details of each of these issues are summarized as follows:

##### Note A

Lender – Rural Development  
Balance of loan - \$897,000  
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 - \$460,000  
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 C

Lender – Ky Infrastructure District  
Balance of loan - \$200,000  
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 - \$402,500  
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 (interim financing)  
Balance of loan - \$373,825  
Interim financing for a waterline project, approved for a loan of \$1,165,000 interest rate 2.5% the District received \$373,825 in proceeds, the remaining proceeds to be drawn down during 2014. This obligation is to be refinanced May 2014 using a revenue bond issue. No portion of the \$373,825 is included as current liability.

Note F

Lender – KRWFC  
 Balance of loan - \$725,000  
 Rate – Variable  
 Principal due – January 1  
 Interest due January 1 and July 1

Note G

Lender – Caterpillar Financial Services  
 Balance of loan - \$39,593  
 Rate – 3.75%  
 Principal and interest due – monthly, payment of \$1,431

Note H

Lender – KRWFC  
 Balance of loan - \$910,000  
 Rate – variable  
 The bonds were sold at a premium of \$84,203, which is being amortized over the term of the bond. The unamortized bond premium is recorded as a noncurrent liability. The premium amortization which is a decrease to interest expense was \$5,263 for 2013. The unamortized bond premium at December 31, 2013 was \$78,940.  
 Principal due – January 1  
 Interest due – January 1 and July 1

Schedule of Notes/Bonds Payable	balance		balance		Current Portion
	12/31/2012	Additions	Payments	12/31/2013	
USDA 91-07	\$923,000	\$-	\$26,000	\$897,000	\$27,000
USDA 91-10	412,000	-	9,500	402,500	9,500
USDA 91-11	468,500	-	8,500	460,000	8,500
Kentucky Infrastructure C89-16	567,500	-	367,500	200,000	200,000
Kentucky Rural Water 2001	517,000	-	517,000	-	-
Kentucky Rural Water 2004	545,000	-	545,000	-	-
Kentucky Rural Water 2007	763,000	-	38,000	725,000	39,000
Kentucky Rural Water 2013	-	910,000	-	910,000	75,000
Town Square Bank	113,250	-	113,250	-	-
Town Square Bank	174,953	28,721	203,674	-	-
Caterpillar	54,958	-	15,365	39,593	15,950
	<u>\$4,539,161</u>	<u>\$ 938,721</u>	<u>\$1,843,789</u>	<u>\$3,634,093</u>	<u>\$ 374,950</u>
Kentucky Rural Water (interim financing)	-	373,825	-	373,825	-
Bond premium	-	84,203	5,263	78,940	-
	<u>\$4,539,161</u>	<u>\$1,396,749</u>	<u>\$1,849,052</u>	<u>\$4,086,858</u>	<u>\$ 374,950</u>

Schedule of maturities

	Principal	Interest		Principal	Interest
2014	\$374,950	\$165,046	2019-2023	919,000	452,993
2015	175,058	135,704	2024-2028	854,500	259,760
2016	170,585	128,909	2029-2033	544,500	114,601
2017	171,500	121,930	2034-2038	213,500	35,888
2018	129,500	114,429	2038-2043	81,000	3,735
				<u>\$3,634,093</u>	<u>\$1,532,995</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 19.55/18.89% 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 2013 was \$333,927 and its contributions were calculated using the base salary amount of \$300,023. Contributions to the plan were \$15,001 and \$57,661 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 31<sup>st</sup> 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:

	<u>balance</u> <u>12/31/12</u>	<u>Transfer/</u> <u>Additions</u>	<u>Deletions</u>	<u>balance</u> <u>12/31/13</u>
Land	\$25,529	\$14,000	\$-	\$39,529
Structures & improvements	121,531	-	-	121,531
Distribution system	15,849,484	63,495	-	15,912,979
Vehicles	156,625	-	-	156,625
Equipment	1,901,625	-	-	1,901,625
Construction in process	<u>177,150</u>	<u>59,260</u>	<u>-</u>	<u>236,410</u>
	<u>18,231,944</u>	<u>136,755</u>	<u>-</u>	<u>18,368,699</u>
Accumulated depreciation	<u>6,327,132</u>	<u>414,204</u>	<u>-</u>	<u>6,741,336</u>
Net fixed assets	<u>11,904,812</u>			<u>11,627,363</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	\$57,164
Depreciation reserve fund	131,464
Debt reserve fund Regions (KRWFC)	142,121
Debt reserve fund (USDA)	<u>130,800</u>
	<u>\$461,549</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, 2013. 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

Board of Commissioners  
Big Sandy Water District  
Catlettsburg, Kentucky

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, 2013, 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 27, 2014.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

**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*

Mount Sterling, Kentucky  
May 27, 2014

Big Sandy Water District  
 COMPARATIVE STATEMENT OF REVENUES AND EXPENSES  
 for the years ended December 31, 2013 and 2012

	2013	2012
Revenues		
User fees	\$ 2,244,287	\$ 2,136,808
Other water revenue	28,546	25,022
Total Revenues	2,272,833	2,161,830
Total Operating Expenses	2,237,387	2,276,132
Operating Income (Loss)	35,446	(114,302)
Nonoperating Revenues (Expenses)		
Grants	42,905	-
Tap fees	35,801	50,645
Bond issue expenses	(17,715)	-
Donated fixed assets	42,775	-
Interest income	772	1,050
Other nonoperating revenues	31,385	-
Interest expense	(225,198)	(224,542)
Net Nonoperating Revenues (Expenses)	(89,275)	(172,847)
Net Income (Loss)	\$ (53,829)	\$ (287,149)

BIG SANDY WATER DISTRICT  
FINDINGS AND RESPONSES  
December 31, 2013

Prior Findings

12-01 Budget Review- Cleared as of 12/31/13

Current Findings

None