

**EAST CASEY COUNTY WATER DISTRICT**  
**Liberty, Kentucky**

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**FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

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### Independent Auditors' Report

Board of Commissioners  
East Casey County Water District  
Liberty, Kentucky

#### Report on the Financial Statements

We have audited the accompanying financial statements of the East Casey County Water District, as of and for the years ended December 31, 2013 and 2012, 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.

#### Auditors' Responsibility

Our responsibility is to express an opinion 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 auditors' 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 opinion.

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### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the East Casey County Water District, as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with **Government Auditing Standards**, we have also issued our report dated March 25, 2014 on our consideration of the East Casey County 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 East Casey County Water District's internal control over financial reporting and compliance.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
Lexington, Kentucky  
March 25, 2014

**EAST CASEY COUNTY WATER DISTRICT  
STATEMENTS OF NET POSITION  
December 31,**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 512,108	\$ 623,022
Investments - certificates of deposit	843,450	838,630
Customer accounts receivable, net	124,353	117,743
Accrued interest receivable	804	1,499
	1,480,715	1,580,894
<b>Restricted assets</b>		
Cash and cash equivalents	605,337	575,374
	605,337	575,374
<b>Capital assets</b>		
Land	59,657	59,657
Property, plant and equipment, net	11,985,763	12,142,954
Construction-in-progress	1,147,067	103,887
	13,192,487	12,306,498
TOTAL ASSETS	\$ 15,278,539	\$ 14,462,766
 <b>LIABILITIES AND NET POSTION</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 101,617	\$ 87,753
Taxes payable	9,664	9,482
Construction payable	47,408	4,500
Customer deposits payable	30,225	25,950
Accrued interest payable	88,389	90,694
Current portion of long-term debt	71,000	68,500
	348,303	286,879
<b>Long-term debt</b>		
KIA Revolving Loan Payable	633,792	-
Bonds payable	2,972,000	3,043,000
	3,605,792	3,043,000
<b>Net position</b>		
Net investment in capital assets	9,515,695	9,194,998
Restricted for reserves	605,337	575,374
Unrestricted	1,203,412	1,362,515
	11,324,444	11,132,887
TOTAL LIABILITIES AND NET POSITION	\$ 15,278,539	\$ 14,462,766

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

**EAST CASEY COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET POSITION**  
for the years ended December 31,

	<b>2013</b>	<b>2012</b>
<b>OPERATING INCOME</b>		
Water sales	\$ 1,549,500	\$ 1,574,725
Late charges	48,003	45,311
Other revenue	<u>31,690</u>	<u>28,094</u>
Total operating income	<u>1,629,193</u>	<u>1,648,130</u>
<b>OPERATING EXPENSES</b>		
Water purchases	625,008	620,645
Salaries	225,528	215,950
Employee benefits	126,777	121,005
Taxes	18,659	18,768
Office expense & postage	38,324	48,776
Insurance	29,969	24,324
Transportation expense	32,639	27,805
Line upkeep	116,395	99,780
Contract labor	71,596	85,735
Utilities & telephone	82,240	76,342
Legal & professional	12,798	16,546
Miscellaneous	10,804	9,034
Regulatory commission expenses	<u>2,942</u>	<u>2,771</u>
Total operating expense	<u>1,393,679</u>	<u>1,367,481</u>
Operating income before depreciation	235,514	280,649
Depreciation expense	<u>(298,321)</u>	<u>(298,962)</u>
<b>OPERATING INCOME</b>	(62,807)	(18,313)
Non-operating income (expenses)		
Interest income	13,083	15,337
Interest expense	<u>(139,494)</u>	<u>(141,482)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	(189,218)	(144,458)
Capital Contributions		
Grants received	-	65,430
Principal forgiveness	341,273	-
Tap fees	32,705	33,916
Contributed land	-	10,000
Other	<u>6,797</u>	<u>4,185</u>
Change in net position	191,557	(30,927)
Net position, beginning of year	<u>11,132,887</u>	<u>11,163,814</u>
<b>NET POSITION END OF YEAR</b>	<u>\$ 11,324,444</u>	<u>\$ 11,132,887</u>

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

**EAST CASEY COUNTY WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
for the years ended December 31,

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,622,583	\$ 1,652,568
Payment to suppliers	(951,457)	(952,885)
Payment for employee services and benefits	<u>(423,901)</u>	<u>(422,690)</u>
Net cash provided by operating activities	<u>247,225</u>	<u>276,993</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments	(68,500)	(63,500)
Proceeds from new debt issue	975,065	-
Interest payments	(141,799)	(143,625)
Additions to property, plant and equipment	(1,141,402)	(52,135)
Tap fees	32,705	33,916
Other capital contributions	6,797	4,185
Grants received	<u>-</u>	<u>65,430</u>
Net cash provided (used) by financing activities	<u>(337,134)</u>	<u>(155,729)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(4,820)	(7,296)
Interest income	<u>13,778</u>	<u>15,820</u>
Net cash provided by investing activities	<u>8,958</u>	<u>8,524</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(80,951)	129,788
Cash and cash equivalents at beginning of year	<u>1,198,396</u>	<u>1,068,608</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,117,445</u>	<u>\$ 1,198,396</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (62,807)	\$ (18,313)
Noncash items included in operating income		
Depreciation	298,321	298,962
Changes in assets and liabilities		
(Increase) decrease in receivables	(6,610)	4,438
Increase (decrease) in accounts payable	13,864	(9,542)
Increase (decrease) in customer deposits	4,275	400
Increase (decrease) in taxes/other payables	<u>182</u>	<u>1,048</u>
Net cash provided by operating activities	<u>\$ 247,225</u>	<u>\$ 276,993</u>
Noncash additions to property, plant and equipment		
Donated land	<u>\$ -</u>	<u>\$ 10,000</u>

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

**EAST CASEY COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

The East Casey County Water District was created and organized as a public body corporate in Casey County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Casey County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net position consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system. These reserves are discussed in note 5.

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 period. Actual results could differ from those estimates.

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include cash on hand, cash in bank and certificates of deposit with original maturities of 90 days or less.

The District records revenue as billed to its customers on monthly meter reading cycles. At the end of each year, water service which has been rendered from the latest date of each meter reading to the year end is unbilled.

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, and capital contributions.

Fixed assets are recorded at cost. Donated assets are valued at their fair market value on the date of donation. Interest incurred during the period of construction is capitalized as a part of the construction costs. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

The allowance for uncollectible accounts at December 31, 2013 and 2012 was \$402,783 and \$354,724, respectively. The District charges all uncollected accounts directly against current earnings. Charges against earnings for the years ended December 31, 2013 and 2012 were \$48,059 and \$37,597, respectively.

Investments consist of certificates of deposit with original maturities of 90 days or longer. Investments are recorded at cost, which approximates fair value.

The District has evaluated and considered the need to recognize or disclose subsequent events through March 25, 2014, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2013, have not been evaluated by the District.



**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012**

**2. CASH AND CASH EQUIVALENTS**

**Statutory Requirements**

The East Casey County Water District deposits at December 31, 2013 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. The bank balances of the District's deposits were \$1,968,745 at December 31, 2013.

Revised Statutes authorize local governmental units 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, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

**Statement of Cash Flows**

The Statement of Cash Flows includes as cash and cash equivalents the following:

	<b>2013</b>	<b>2012</b>
Cash	\$ 512,108	\$ 623,022
Restricted Cash	<u>605,337</u>	<u>575,374</u>
	<u>\$ 1,117,445</u>	<u>\$ 1,198,396</u>

**3. PROPERTY, PLANT, AND EQUIPMENT**

A summary of capital asset activity during the year follows:

	<b>Balance 12/31/12</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 12/31/13</b>
Capital assets not depreciated:				
Land	\$ 59,657	\$ -	\$ -	\$ 59,657
Construction in Progress	<u>103,887</u>	<u>1,116,680</u>	<u>(73,500)</u>	<u>1,147,067</u>
Totals	163,544	1,116,680	(73,500)	1,206,724
Capital assets that are depreciated:				
Personal Property & Equipment	<u>17,087,354</u>	<u>141,130</u>	<u>(26,153)</u>	<u>17,202,331</u>
Less Accumulated Depreciation	<u>4,944,400</u>	<u>298,321</u>	<u>(26,153)</u>	<u>5,216,568</u>
Totals	<u>12,142,954</u>	<u>(157,191)</u>	<u>-</u>	<u>11,985,763</u>
Capital Assets, net	<u>\$ 12,306,498</u>	<u>\$ 959,489</u>	<u>\$ (73,500)</u>	<u>\$ 13,192,487</u>

**4. LONG-TERM DEBT**

Long-term debt consists of two issues of 5% bonds issued in 1987 and 1990 for \$301,000 and \$500,000, respectively, four issues of 4.5% issued in 1993, 1997, 2000 and 2004, collateralized by the water distribution system payable to United States of America, Rural Development, and a 2008 issue of 4.38% bonds for \$1,001,000.

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012**

**4. LONG-TERM DEBT (CONTINUED)**

The District has obtained a Federally Assisted Drinking Water Revolving Loan from the Kentucky Infrastructure Authority in order to fund the Various Waterline Extensions Project. The District is taking draws on the loan as the project progresses. During the year, the District obtained draws totaling \$975,065, in order to fund project expenses. As part of the loan agreement, the District is entitled to principal forgiveness in the amount of 35%. Due to this provision, the District has recognized \$341,273 of principal forgiveness in current year operations; this amount represents 35% of the draws obtained during 2013. Final loan and forgiveness amounts will be based on actual project costs, except total draws cannot exceed \$1,545,000. Upon completion, the loan will have a stated interest rate of 1% to be repaid over 20 years. This loan will be reflected in long-term liabilities until all funds have been drawn down and the project is complete.

The annual requirements to amortize all long-term debt outstanding as of December 31, 2013, are as follows:

Year Ending	Principal	Interest	Payment
2014	\$ 71,000	\$ 138,043	\$ 209,043
2015	73,000	134,755	207,755
2016	78,000	131,350	209,350
2017	81,000	127,716	208,716
2018	85,000	123,965	208,965
2019-2023	489,000	556,743	1,045,743
2024-2028	598,000	431,498	1,029,498
2029-2033	575,000	292,993	867,993
2034-2038	495,500	171,644	667,144
2039-2043	380,500	68,499	448,999
2044-2046	<u>117,000</u>	<u>6,066</u>	<u>123,066</u>
	<u>\$ 3,043,000</u>	<u>\$ 2,183,272</u>	<u>\$ 5,226,272</u>
KIA Revolving Loan Fund	<u>633,792</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,676,792</u>	<u>\$ 2,183,272</u>	<u>\$ 5,226,272</u>

The following is a summary of long term debt for the year ended December 31, 2013:

	Interest Rate	Balance January 1, 2013	Issued	Principal Payments (Forgiveness)	Balance December 31, 2013
Series 1987	5.00%	\$ 185,000	\$ -	\$ 9,000	\$ 176,000
Series 1990	5.00%	345,000	-	12,000	333,000
Series 1993	4.50%	303,000	-	9,000	294,000
Series 1997	4.50%	432,000	-	10,000	422,000
Series 2000	4.50%	518,500	-	9,500	509,000
Series 2004	4.50%	373,000	-	6,000	367,000
Series 2007	4.38%	955,000	-	13,000	942,000
KIA Revolving	1.00%	<u>-</u>	<u>975,065</u>	<u>341,273</u>	<u>633,792</u>
		<u>\$ 3,111,500</u>	<u>\$ 975,065</u>	<u>\$ 409,733</u>	<u>\$ 3,676,792</u>

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012**

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**5. COMPLIANCE WITH BOND ORDINANCE**

The East Casey County Water District is required to comply with the bond agreements of all bond issues as follows:

**Sinking Fund**

The District is required to set aside an amount into a special account known as the East Casey County Water District Water System Revenue Bonds, Bond and Interest Sinking Fund. The amount to be set aside and paid each month shall be not less than the following respective amounts:

- 1) A sum equal to one sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
- 2) A sum equal to one twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The District had set aside \$216,195 into a restricted account at December 31, 2013, and \$213,978 at December 31, 2012. Reserve requirements were met during 2013.

**Depreciation Fund**

The District is required to deposit into the Depreciation Fund account the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and used, upon appropriate certification to the bank, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$72,000 the monthly payments may be discontinued, or by order of the governing body of the District, be diverted into the Sinking Fund Account. The 2000 issue requires an additional deposit of \$275 per month for the life of the loan once the facility becomes operational. Furthermore, the 2007 series requires an additional \$455 per month for the life of the loan. The District had set aside \$389,142 and \$361,396 at December 31, 2013 and 2012.

**6. RETIREMENT PLAN**

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012**

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**6. RETIREMENT PLAN (CONTINUED)**

Contributions – For the year ended December 31, 2013, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2013, participating employers contributed 19.55% through June 30 and 18.89% thereafter, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employer and employee) and the actual percentage contributed for the District for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 55,011	100%
2012	\$ 52,756	100%
2011	\$ 47,309	100%

**7. 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. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**8. CONTINGENCIES**

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

**9. RECLASSIFICATIONS**

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income or fund balances as previously reported.

**10. SUBSEQUENT EVENT**

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans.

**EAST CASEY COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012**

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**9. SUBSEQUENT EVENT (CONTINUED)**

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013, (that is, for years ended June 30, 2014, or later). The District is currently evaluating the effects of this statement on its financial statements. The potential liability for the year ending December 31, 2014, is not currently estimable.

**INDEPENDENT AUDITORS' 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  
East Casey County Water District  
Liberty, Kentucky

We have audited 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, the financial statements of the East Casey County Water District (the "District") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the East Casey County Water District's basic financial statements, and have issued our report thereon dated March 25, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (2013-1).

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.

**INDEPENDENT AUDITORS' 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*  
(CONTINUED)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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*.

**East Casey County Water District's Response to Findings**

East Casey County Water District's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District'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.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
March 25, 2014



Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Commissioners  
East Casey County Water District  
Liberty, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited East Casey County Water District's compliance with the types of compliance requirements described in the **OMB Circular A-133 Compliance Supplement** that could have a direct and material effect on each of East Casey County Water District's major federal programs for the year ended December 31, 2013. East Casey County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of East Casey County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and OMB Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East Casey County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of East Casey County Water District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, East Casey County Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133  
(CONTINUED)**

**Report on Internal Control Over Compliance**

Management of East Casey County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered East Casey County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Casey County Water District's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
March 25, 2014

**EAST CASEY COUNTY WATER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2013**

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<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Contract Number</u>	<u>Federal Expenditures</u>
Environmental Protection Agency Passed through the Kentucky Infrastructure Authority Capitalization Grants for Clean Water State Revolving Funds	66.458	F11-11	\$ <u>1,022,473</u>
Total Federal Financial Assistance			\$ <u>1,022,473</u>

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the East Casey County Water District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

**EAST CASEY COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended December 31, 2013**

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**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses  Yes  No

Non-compliance material to financial statements noted  Yes  No

Federal Awards:

Internal control over major programs:

Material weaknesses identified  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses  Yes  None Reported

Type of auditors' report issued on compliance for major programs:

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as a low-risk auditee?  Yes  No

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

**#2013-1**

***Condition:***

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles. This includes having appropriate internal controls to handle the year-end financial closing process and prepare complete financial records.

***Criteria:***

Numerous material adjustments were necessary to prepare the financial statements in conformity with generally accepted accounting principles.

***Cause:***

The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures, and to properly handle the financial closing process. Also, identifying and applying new authoritative guidance in regards to elements reported in the notes to the financial statements is outside the scope of management.

**EAST CASEY COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended December 31, 2013**

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***Effect:***

The District relied on auditor prepared accounting adjustments to ensure the financial records are properly stated in accordance with generally accepted accounting principles. The District reviewed, approved and accepted responsibility for the accounting adjustments, as the auditor cannot be a component of the District's internal control.

Management also engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

***Recommendation:***

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements, including a review of the period-end financial report, and ensure compliance with generally accepted accounting principles.

***Response:***

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes and to prepare year-end closing entries.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**  
NONE

**IV. PRIOR AUDIT FINDINGS**  
NONE