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**WESTERN LEWIS-RECTORVILLE
WATER & GAS DISTRICT
MAYSVILLE, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012**



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

2202 Old Main Street, Maysville, KY 41056

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Years Ended December 31, 2013 and 2012**

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Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Western Lewis-Rectorville Water & Gas District
Maysville, Kentucky 41056

Report on the Financial Statements

I have audited the accompanying financial statements of Western Lewis-Rectorville Water & Gas 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.

Auditor's Responsibility

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 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Western Lewis-Rectorville Water & Gas District as of December 31, 2013 and 2012, and the respective changes in financial position and 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

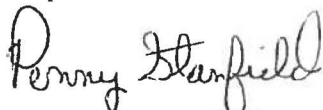
Management has omitted the management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is 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. My opinion on the basic financial statements is not affected by this missing information.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Lewis-Rectorville Water & Gas District's basic financial statements. The accompanying supplemental information on pages 13 and 14 are presented for purposes of additional analysis and is not a required part of the basic financial statements. The 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 my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated October 10, 2014, on my consideration of the Western Lewis-Rectorville Water & Gas District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Western Lewis-Rectorville Water & Gas District's internal control over financial reporting and compliance.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

October 10, 2014

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
December 31, 2013 and 2012

	2013	2012
ASSETS		
Current Assets:		
Cash and Cash Equivalents - Unrestricted	\$ 85,342	\$ 62,949
Accounts Receivable- Customers (Less Allowance for Doubtful Accounts of \$6,300)	115,166	99,906
Inventory	38,969	33,182
Unbilled Receivables	55,597	50,991
Prepaid Expenses	8,943	9,520
Total Current Assets	304,017	256,548
Noncurrent Assets:		
Cash and Cash Equivalents - Restricted	345,442	364,485
Nondepreciated Capital Assets:		
Land	47,914	47,914
Depreciated Capital Assets:		
Utility Plant and Equipment	11,766,676	11,694,501
Less: Accumulated Depreciation	(4,102,450)	(3,822,449)
Total Noncurrent Assets	8,057,582	8,284,451
TOTAL ASSETS	\$ 8,361,599	\$ 8,540,999
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 49,564	\$ 81,343
Accrued Taxes and Retirement	6,845	9,391
Accrued Interest Payable	18,848	19,255
Accrued Wages and Sick Leave	7,948	10,646
Customer Deposits and Budget Billings	110,914	114,979
Current Portion of Long-Term Debt	56,500	53,500
Total Current Liabilities	250,619	289,114
Noncurrent Liabilities:		
Bonds Payable, Net of Current Portion	2,438,000	2,494,500
TOTAL LIABILITIES	2,688,619	2,783,614
NET POSITION		
Investment in Capital Assets, Net of Related Debt	5,217,640	5,371,966
Restricted	345,442	364,485
Unrestricted	109,898	20,934
TOTAL NET POSITION	\$ 5,672,980	\$ 5,757,385

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

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND

For the Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Water and Gas Sales:		
Residential	\$ 905,637	\$ 840,161
Commercial	100,626	93,351
Service Charges and Other Revenue	52,072	51,105
TOTAL OPERATING REVENUES	1,058,335	984,617
 OPERATING EXPENSES		
Salaries & Wages - Employees	208,329	254,624
Salaries & Wages - Officers & Directors	13,800	14,400
Retirement Expense	36,338	45,303
Purchased Water and Gas	220,040	196,973
Purchased Power	48,900	49,228
Chemicals & Testing	10,272	12,659
Materials & Supplies	28,266	35,030
Professional Fees	10,425	9,500
Maintenance Expense	43,182	34,688
Rental Expense	739	2,293
Insurance	104,076	87,274
Regulatory Commission Expense	-	1,828
Depreciation and Amortization	311,501	308,220
Utilities and Telephone	5,835	5,688
Office and Program Expense	52,549	45,108
Taxes Other Than Income	17,888	20,746
TOTAL OPERATING EXPENSES	1,112,140	1,123,562
 OPERATING INCOME (LOSS)	(53,805)	(138,945)
 NONOPERATING REVENUES (EXPENSES)		
Interest Income	495	547
Gain on Sale of Asset	15,000	-
Tollesboro Sanitation District No.1 Fee	11,733	12,859
Insurance Recoveries	32,814	-
Interest Expense	(114,667)	(117,329)
TOTAL NONOPERATING REVENUES (EXPENSES)	(54,625)	(103,923)
 Net Income (Loss) Before Capital Contribution	(108,430)	(242,868)
 Capital Grants	6,000	-
Customer Tap Fees	18,025	27,300
CHANGE IN NET POSITION	(84,405)	(215,568)
 NET POSITION- Beginning of year	5,757,385	5,972,953
NET POSITION- End of year	\$ 5,672,980	\$ 5,757,385

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

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
For The Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 1,034,404	\$ 989,428
Payments to Suppliers	(618,452)	(603,913)
Payments to Employees	(224,827)	(269,098)
	191,125	116,417
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	495	547
	495	547
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Capital Debt	(53,500)	(51,500)
Purchases of Capital Assets	(103,675)	(26,350)
Proceeds from Disposal of Assets	15,000	-
Insurance Recoveries	32,814	-
Contributed Capital-Tap Fees	18,025	27,300
Contributed Capital-Grants	6,000	-
Net Receipts from Sanitation District No. 1	11,733	12,859
Interest Paid on Capital Debt	(114,667)	(117,329)
	(188,270)	(155,020)
NET INCREASE (DECREASE) IN CASH	3,350	(38,056)
Cash and Cash Equivalents - At Beginning of Year	427,434	465,490
CASH AND CASH EQUIVALENTS - AT END OF YEAR	\$ 430,784	\$ 427,434
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	(53,805)	(138,945)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation & Amortization Expense	311,501	308,220
Change in Assets and Liabilities:		
Accounts Receivable, Net	(15,260)	6,944
Inventory	(5,787)	6,271
Unbilled Receivables	(4,606)	(3,204)
Prepaid Expense	577	10,838
Accounts Payable and Other Payables	(34,732)	(74,704)
Customer Deposits & Budget Billings	(4,065)	1,071
Accrued Wages and Sick Leave	(2,698)	(74)
	\$ 191,125	\$ 116,417

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

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Western Lewis-Rectorville Water & Gas District (District) was incorporated as a public body in 1961 under Chapter 74 of Kentucky Revised Statutes. The Kentucky Public Service Commission presently regulates the District. A description of the District's significant accounting policies follows:

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 Western Lewis-Rectorville Water & Gas 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 government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District.

Based on the foregoing criteria there are no other organizations included in these financial statements.

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.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The financial statements of the District are prepared using the economic resources measurement focus for the proprietary fund financial statements. 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 fund's principal ongoing operations. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The accounts of the District are maintained on the accrual basis of accounting. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is valued at the lower of cost or market.

Fixed Assets

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates determined by reference to Utility Standards Rates (NARUC). The District's capitalization policy is to capitalize expenditures costing \$5,000 or more with an estimated useful life of one year or more.

Unbilled Revenue

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

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. 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.

NOTE 2: CASH AND INVESTMENTS

The cash balances at December 31, 2013 were comprised of the following:

Working Funds – Checking	\$ 85,342
Restricted Funds – Checking	345,442
	\$ 430,784

The District is required to maintain special deposit accounts for customer deposits and long-term debt obligations that restrict use of debt amortization and capital improvements as follows:

Customer Deposits	\$ 87,082
Bond and Interest Sinking Fund	103,770
Depreciation Fund	153,853
Construction Fund	737
	\$ 345,442

NOTE 3: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of December 31, 2013, \$185,543 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$185,543
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WESTERN LEWIS-RECTORVILLE GAS & WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 4: FIXED ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

<u>Business-Type Activities</u>	Balance Jan. 1, 2013	Additions	Deductions	Balance Dec. 31, 2013
Cost:				
Land	\$ 47,914	\$ -	\$ -	\$ 47,914
Plant in Service:				
Water	11,044,117	12,675	-	11,056,792
Gas	489,710	-	-	489,710
Other Depreciable Assets	160,674	91,000	(31,500)	220,174
Totals at historical cost	<u>11,742,415</u>	<u>103,675</u>	<u>(31,500)</u>	<u>11,814,590</u>
Less accumulated depreciation:				
Plant in Service:				
Water	3,377,122	290,570	-	3,667,692
Gas	295,281	11,445	-	306,726
Other Depreciable Assets	150,046	9,486	(31,500)	128,032
Total accumulated depreciation	<u>3,822,449</u>	<u>311,501</u>	<u>(31,500)</u>	<u>4,102,450</u>
Business-Type Activities Capital Assets - Net	<u>\$ 7,919,966</u>	<u>\$ (207,826)</u>	<u>\$ -</u>	<u>\$ 7,712,140</u>

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

<u>Business-Type Activities</u>	Balance Jan. 1, 2012	Additions	Deductions	Balance Dec. 31, 2012
Cost:				
Land	\$ 47,914	\$ -	\$ -	\$ 47,914
Plant in Service:				
Water	11,017,767	26,350	-	11,044,117
Gas	489,710	-	-	489,710
Other Depreciable Assets	160,674	-	-	160,674
Totals at historical cost	<u>11,716,065</u>	<u>26,350</u>	<u>-</u>	<u>11,742,415</u>
Less accumulated depreciation:				
Plant in Service:				
Water	3,086,193	290,929	-	3,377,122
Gas	283,656	11,625	-	295,281
Other Depreciable Assets	144,380	5,666	-	150,046
Total accumulated depreciation	<u>3,514,229</u>	<u>308,220</u>	<u>-</u>	<u>3,822,449</u>
Business-Type Activities Capital Assets - Net	<u>\$ 8,201,836</u>	<u>\$ (281,870)</u>	<u>\$ -</u>	<u>\$ 7,919,966</u>

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 5: LONG-TERM DEBT

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$150,000, 1988 Series A Rural Development Bonds, payable in semi-annual installments plus interest at 5.00%, due November 1, 2027	\$ 94,000	\$ -	\$ 4,000	\$ 90,000
\$130,000, 1988 Series B Rural Development Bonds, payable in semi-annual installments plus interest at 5.00%, due November 1, 2027	80,500	-	3,500	77,000
\$971,000, 1996 Series A Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2036	796,000	-	18,000	778,000
\$750,000, 1996 Series B Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2036	601,000	-	14,000	587,000
\$333,000, 2001 Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2041	295,500	-	5,000	290,500
\$712,000, 2007 Rural Development Bonds, payable in semi-annual installments plus interest at 4.375% due November 1, 2046	681,000	-	9,000	672,000
	<u>\$ 2,548,000</u>	<u>\$ -</u>	<u>\$ 53,500</u>	<u>\$ 2,494,500</u>
Less: Current Maturities	53,500			56,500
Totals	<u>\$ 2,494,500</u>			<u>\$ 2,438,000</u>

The following is a schedule of long-term debt maturities:

	<u>Principal</u>	<u>Interest</u>
2014	56,500	112,248
2015	59,500	109,676
2016	62,500	106,967
2017	65,500	104,119
2018	69,500	101,138
2019-2023	395,000	455,482
2024-2028	480,000	375,929
2029-2033	531,500	245,420
2034-2038	464,000	119,317
2039-2043	202,500	48,758
2044-2046	108,000	9,538
	<u>\$ 2,494,500</u>	<u>\$ 1,788,592</u>

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 6: RESERVES

The Western Lewis-Rectorville Water & Gas District is required to comply with the bond agreement of the 2007, 2001, 1988 and 1996 bond issues as follows:

A. SINKING FUND

On a monthly basis, the District is required to set aside an amount into a special account known as the "Western Lewis-Rectorville Water & Gas District System Bond and Interest Sinking Fund". The amount to be set aside each month shall be sums 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 the 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 required balance of the Sinking Fund reserve was \$28,125 at December 31, 2013 after payment of the November 1 debt service. The District had set aside \$103,770 into the restricted account. Deposits were made to the Sinking Fund on a monthly basis as required in (1) and (2).

B. DEPRECIATION FUND

The District is required to deposit \$320 each month into the Depreciation Fund account as well as 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 shall be withdrawn or used, upon appropriate certification to Rural Development, for the purpose of paying the cost of constructing replacements, extensions, additions and/or improvements to the project. The District had set aside \$153,853. The required depreciation reserve was \$150,000. Therefore, the District is in compliance with this debt covenant.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 7: 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.

Contributions – For the year ended December 31, 2013, plan members were required to contribute 5.00% of wages. Participating employers were required to contribute at an actuarially determined rate. 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% for January to June and 18.89% for July through December 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 (employee and employer) 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	\$ 45,792	100%
2012	\$ 57,042	100%
2011	\$ 53,394	100%

NOTE 8: 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 the District's management.

SUPPLEMENTAL INFORMATION

**WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
STATEMENT OF REVENUES AND EXPENSES**

PROPRIETARY FUND

For the Year Ended December 31, 2013

	<u>Water</u>	<u>Gas</u>	<u>Total</u>
OPERATING REVENUES			
Water and Gas Sales:			
Residential	\$ 643,002	\$ 262,635	\$ 905,637
Commercial	71,445	29,181	100,626
Service Charges and Other Revenue	36,971	15,101	52,072
Total Operating Revenues	751,418	306,917	1,058,335
OPERATING EXPENSES			
Salaries & Wages - Employees	147,914	60,415	208,329
Salaries & Wages - Officers & Directors	9,798	4,002	13,800
Retirement Expense	25,800	10,538	36,338
Purchased Water & Gas	28,070	191,970	220,040
Purchased Power	34,719	14,181	48,900
Chemicals & Testing	7,293	2,979	10,272
Materials & Supplies	22,683	5,583	28,266
Professional Fees	7,402	3,023	10,425
Maintenance Expense	18,842	24,340	43,182
Rental Expense	525	214	739
Insurance	73,894	30,182	104,076
Regulatory Commission Expense	-	-	-
Depreciation and Amortization	300,056	11,445	311,501
Utilities and Telephone	4,143	1,692	5,835
Office and Program Expense	37,310	15,239	52,549
Taxes Other Than Income	12,700	5,188	17,888
Total Operating Expenses	731,149	380,991	1,112,140
OPERATING INCOME (LOSS)	20,269	(74,074)	(53,805)
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	495	-	495
Gain on Disposal of Assets	15,000	-	-
Tollesboro Sanitation District No. 1 Fee	11,733	-	11,733
Insurance Recoveries	32,814	-	-
Interest Expense	(114,274)	(393)	(114,667)
Net Non-Operating Revenue (Expenses)	(54,232)	(393)	(102,439)
Income (Loss) Before Capital Contributions	(33,963)	(74,467)	(156,244)
Capital Grants	6,000		
Customer Tap Fees	17,400	625	18,025
Change in Net Position	\$ (10,563)	\$ (73,842)	\$ (84,405)

**WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2013**

<u>Schedule of Insurance in Force</u>			
<u>Insurance Coverage</u>	<u>Policy No.</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability			
Ky. League of Cities Ins.	L5715-011110	\$3,000,000	07-01-14
Public Officials			
Ky. League of Cities Ins.	L5715-011110	\$3,000,000	07-01-14
Automobile Liability			
Ky. League of Cities Ins.	L5715-011110	\$3,000,000	07-01-14
Commercial Property			
Buildings & Personal	P5715-011110	\$4,803,015	07-01-14
Equipment	P5715-011110	\$ 85,000	07-01-14
Surety Bond			
CNA Surety	69852281	\$950,000	07-01-14
Encroachment Bond			
Ohio Casualty Ins.	2610369	\$ 25,000	12-18-14
Worker's Comp			
KY League of Cities	W5715-011120	\$4,000,000	07-01-14
Insurance			

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2013, accounts receivable were aged as follows:

	<u>Number Of Accounts</u>	<u>Amount</u>
Current	2,283	\$107,495
Over 30 Days	117	6,532
Over 60 Days	23	626
Over 90 Days	14	6,813
Total	<u>2,437</u>	<u>\$121,466</u>

During 2013, the District wrote off no accounts as uncollectible, but carried a reserve for possible uncollectible accounts of \$6,300. Accounts in arrears have been collected or are covered by deposits.

The District had a total of 2,928 customers at December 31, 2013. Of these customers, 2,677 were residential and 251 were commercial.

Commissioners:

John Thomas, Chairman
Terry Thomas, Secretary
James Williams, Treasurer
Robbie Joe Gantley
Gerald Johnson



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

**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
Western Lewis-Rectorville Water & Gas District
Maysville, Kentucky 41056

I 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 Western Lewis-Rectorville Water & Gas 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 Western Lewis-Rectorville Water & Gas District's basic financial statements, and have issued my report thereon dated October 10, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Western Lewis-Rectorville Water & Gas District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Western Lewis-Rectorville Water & Gas District's internal control. Accordingly, I do not express an opinion on the effectiveness of Western Lewis-Rectorville Water & Gas District's internal control.

My 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 described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. I considered the deficiency (2013-1) described in the accompanying schedule of findings and responses to be a material weakness.

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Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Compliance and Other Matters

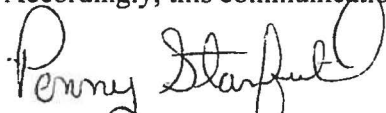
As part of obtaining reasonable assurance about whether Western Lewis-Rectorville Water & Gas District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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*.

Western Lewis-Rectorville Water & Gas District Response to the Findings

Western Lewis-Rectorville Water & Gas District's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. Western Lewis-Rectorville Water & Gas District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

October 10, 2014

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013

2013-1 LACK OF SEGREGATION OF DUTIES

Condition: The District continues to have a lack of segregation of duties. The senior office clerk performs and manages all of the accounting transactions. While the work performed by the senior office clerk is sufficient, there remains the overall problem of lack of segregation of duties.

Criteria: Proper segregation of duties should be in place to ensure that no single individual has complete control over an accounting function.

Cause: This is due to the small size of the District.

Effect: Since one employee has control over all accounting transactions and no other compensating controls were in place, duties were not adequately segregated.

Recommendation: The board of commissioners needs to provide more oversight.

Response: The Board will take steps to insure that separation of duties, where possible, is maximized.