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Public Service
Commission

Western Lewis Retroville Water & Gas District

Maysville, Kentucky

Regular Audit

January 1, 2014 through December 31, 2014

Fiscal Years Audited Under GAGAS: 2014



CAUDILL & ASSOCIATES, CPA, PLLC

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South Shore, KY 41175

Table of Contents

Independent Auditor’s Report	1	
Financial Statements		
Statement of Net Position.....	3	
Statement of Revenues, Expenses and Changes in Net Position.....	4	
Statement of Cash Flows	5	
Notes to Financial Statements	6-12	
Supplemental Information		
Statement of Revenues and Expenses – Gas and Water Division.....	13	
Supplemental Information Required by Rural Development.....	14	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....		15-16
Schedule of Prior Audit Findings.....	17	



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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Western Lewis-Rectorville Water & Gas District
Maysville, KY 41056

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Western Lewis-Rectorville Water & Gas District of Maysville, Kentucky, (the "District"), as of and for the year ended December 31, 2014, 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 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 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 opinion.

Opinion

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 Western Lewis-Rectorville Water & Gas District of Maysville, Kentucky, as of December 31, 2014 and the changes in financial position and cash flows, thereon for the year ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The 2013 financial statements were previously audited by another auditor, and her report dated October 10, 2014 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplemental Information

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 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 Information

Our 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 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*, we have also issued our report dated October 6, 2015, on our consideration of Western Lewis-Rectorville Water & Gas 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 the District's internal control over financial reporting and compliance.

Caudill & Associates, CPA

Caudill & Associates, CPA, PLLC
October 6, 2015

Western Mason Sanitation District
Statement of Net Position
December 31, 2014 and 2013

<u>ASSETS:</u>	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and Cash Equivalents - unrestricted	\$ 216,276	\$ 85,342
Accounts receivable (Less Allowance for Doubtful Accounts of \$6,300)	127,227	115,166
Inventory	35,698	38,969
Unbilled Receivables	72,949	55,597
Prepaid Expense	<u>8,777</u>	<u>8,943</u>
<u>Total Current Assets</u>	<u>460,927</u>	<u>304,017</u>
Noncurrent Assets:		
Cash and Cash Equivalents - restricted	338,758	345,442
Nondepreciated Capital Assets:		
Land	47,914	47,914
Depreciated Capital Assets:		
Utility Plant and Equipment	11,764,069	11,766,676
Less: accumulated depreciation	<u>(4,384,824)</u>	<u>(4,102,450)</u>
<u>Total Noncurrent Assets</u>	<u>7,765,917</u>	<u>8,057,582</u>
<u>Total Assets</u>	<u>\$ 8,226,844</u>	<u>\$ 8,361,599</u>
<u>LIABILITIES AND NET POSITION:</u>		
Current Liabilities:		
Accounts payable	\$ 54,257	\$ 49,564
Accrued Taxes and Retirement	7,495	6,845
Accrued Interest Payable	18,418	18,848
Accrued Wages and Sick Leave	9,270	7,948
Customer Deposits and Budget Billing	108,385	110,914
Current portion of long-term debt	<u>59,500</u>	<u>56,500</u>
<u>Total Current Liabilities</u>	<u>257,325</u>	<u>250,619</u>
Long-Term Liabilities:		
Bonds payable, less current portion	<u>2,378,500</u>	<u>2,438,000</u>
<u>Total Long-Term Liabilities</u>	<u>2,378,500</u>	<u>2,438,000</u>
<u>Total Liabilities</u>	<u>2,635,825</u>	<u>2,688,619</u>
Net Position		
Net Investment in capital assets	4,989,159	5,217,640
Restricted	338,758	345,442
Unrestricted	<u>263,102</u>	<u>109,898</u>
<u>Total Net Position</u>	<u>5,591,019</u>	<u>5,672,980</u>
<u>Total Liabilites and Net Position</u>	<u>\$ 8,226,844</u>	<u>\$ 8,361,599</u>

The accompanying notes are an integral part of these financial statements

Western Lewis-Rectorville Water and Gas District
Statement of Revenues, Expenses and
Changes in Net Position
For the Years Ended December 31, 2014 and 2013

<u>OPERATING REVENUE:</u>	2014	2013
Water and Gas Sales:		
Residential	\$ 1,099,959	\$ 905,637
Commerical	135,950	100,626
Service Charges and Other Revenues	63,156	52,072
<u>Total Operating Revenues</u>	1,299,065	1,058,335
 <u>OPERATING EXPENSES:</u>		
Salaries & Wages - Employees	189,134	208,329
Salaries & Wages - Officers & Directors	14,400	13,800
Retirement Expense	32,577	36,338
Purchased Water and Gas	377,698	220,040
Purchased Power	49,988	48,900
Chemicals and Salt	16,856	10,272
Materials and Supplies	14,999	28,266
Professional Fees	17,860	10,425
Maintenance Expense	99,711	43,182
Rental Expense	5,133	739
Insurance	85,556	104,076
Regulatory Commission Expense	3,889	-
Depreciation and Amortization	311,021	311,501
Utilities and Telephone	5,945	5,835
Office and Program Expense	97,492	52,549
Taxes Other Than Income	17,666	17,888
<u>Total Operating Expense</u>	1,339,925	1,112,140
 <u>OPERATING INCOME/ (LOSS):</u>	(40,860)	(53,805)
 Non-operating income (expenses)		
Interest income	457	495
Gain on Sale of Assets	1,587	15,000
Tollesboro Sanitation District No.1 Fee	17,422	11,733
Insurance Recoveries	40,000	32,814
Interest expense	(111,817)	(114,667)
<u>Total Nonoperating Revenues/(Expenses)</u>	(52,351)	(54,625)
 <u>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</u>	(93,211)	(108,430)
 Capital Grants	-	6,000
Customer Tap Fees	11,250	18,025
 Change in net position	(81,961)	(84,405)
 Net position, beginning of year	5,672,080	5,757,385

Western Lewis-Rectorville Water Gas District
Statement of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers	1,267,123	1,034,404
Payments to suppliers	(817,020)	(618,452)
Payments of employees	(202,212)	(224,827)
Net cash provided/ (used) by operating activities	247,891	191,125
Cash flows from capital and related financing activities:		
Principal paid on Debt	(56,500)	(53,500)
Interest paid on Debt	(111,817)	(114,667)
Purchases of Capital Assets	(26,040)	(103,675)
Proceeds from disposal of assets	1,587	15,000
Insurance recoveries	40,000	32,814
Contributed Capital-Tap Fees	11,250	18,025
Contributed Capital-Grants	-	6,000
Net Receipts from Sanitation District No. 1	17,422	11,733
Net cash provided/ (used) in capital and related financing activities	(124,098)	(188,270)
Cash flows from investing activities:		
Interest Income	457	495
Net cash provided /(used) by investing activities	457	495
Net increase/ (decrease) in cash	124,250	3,350
Cash, beginning of year	430,784	427,434
Cash, end of year	555,034	430,784
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating Income/ (loss)	(40,860)	(53,805)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	311,021	311,501
Change in assets and liabilities:		
(Increase) decrease in receivables, net	(12,061)	(15,260)
(Increase) decrease in inventory	3,271	(5,787)
(Increase) decrease in unbilled receivables	(17,352)	(4,606)
(Increase) decrease in other prepaid expenses	166	577
Increase (decrease) in accounts payable	4,913	(34,732)
Increase (decrease) in customer deposits and budget billings	(2,529)	(4,065)
Increase (decrease) in accrued wages and sick leave	1,322	(2,698)
Net cash provided (used) by operating activities	247,891	191,125

The accompanying notes are an integral part of these financial statements

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

The Western Lewis-Rectorville Water & Gas District (the 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:

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
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

Basic of Accounting

The accounts of the District are maintained on the accrual basis of accounting. The District's financial statements include the operation 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 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 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 a 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 expenses as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 76.020, 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 the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of the revenues and expenditures during the reporting period. Actual results could differ from estimated amounts.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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 restriction imposed by creditors, grantors, laws or regulation 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, 2014 were comprised of the following:

Working Funds - Checking	\$99,596
Unrestricted Funds - Savings	<u>116,680</u>
	<u>\$216,276</u>

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	\$86,154
Bond and Interest Sinking Fund	103,089
Depreciation Fund	148,778
Construction Fund	<u>737</u>
	<u>\$338,758</u>

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, 2014, \$309,854 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$309,854.
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WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 4 - Capital Assets

Capital asset activity for the year ended December 31, 2014 was as follows:

<u>Business Activities</u>	<u>Balance 12/31/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/2014</u>
Cost:				
Land	\$ 47,914	\$ -	\$ -	\$ 47,914
Plant in Service:				-
Water	11,056,792	26,040		11,082,832
Gas	489,710			489,710
Other Depreciable Assets	220,174		(28,647)	191,527
Totals at historical costs	<u>11,814,590</u>	<u>26,040</u>	<u>(28,647)</u>	<u>11,811,983</u>
Less Accumulated Depreciation:				
Plant in Service:				
Water	3,667,692	290,271		3,957,963
Gas	306,726	11,264		317,990
Other Depreciable Assets	128,032	9,486	(28,647)	108,871
Total Accumulated Depreciation	<u>4,102,450</u>	<u>311,021</u>	<u>(28,647)</u>	<u>4,384,824</u>
Business Activities Capital Assets -Net	<u>\$ 7,712,140</u>	<u>\$ (284,981)</u>	<u>\$ -</u>	<u>\$ 7,427,159</u>

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

<u>Business Activities</u>	<u>Balance 12/31/2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/2013</u>
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 costs	<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 Activities Capital Assets -Net	<u>\$ 7,919,966</u>	<u>\$ (207,826)</u>	<u>\$ -</u>	<u>\$ 7,712,140</u>

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 5 - Long Term Debt

The Following is a summary of changes in long-term debt for the year ended December 31, 2014:

	<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	\$ 90,000	\$ -	\$ 4,000	\$ 86,000
\$130,000, 1988 Series B Rural Development Bonds, payable in semi-annual installments plus interest at 5.00%, due November 1, 2027	77,000	-	4,000	73,000
\$971,000 1996 Series A Rural Development Bonds, payable in semi-annual installments plus interest at 4.5%, due November 1, 2036	778,000	-	19,000	759,000
\$750,000, 1996 Series B Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2036	587,000	-	15,000	572,000
\$333,000, 2001 Rural Development Bonds, payable in semi-annual installments plus interest at 4.50% due November 1, 2041	290,500	-	5,500	285,000
\$712,000, 2007 Rural Development Bonds, payable in semi-annual installments plus interest at 4.37% due November 1, 2046	<u>672,000</u>	<u>-</u>	<u>9,000</u>	<u>663,000</u>
	\$ 2,494,500	\$ -	\$ 56,500	\$ 2,438,000
Less: Current Maturities	<u>56,500</u>			<u>59,500</u>
Totals	<u>\$ 2,438,000</u>			<u>\$ 2,378,500</u>

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

	<u>Principle</u>	<u>Interest</u>
2015	\$ 59,500	\$ 109,676
2016	62,500	106,967
2017	65,500	104,119
2018	69,500	101,138
2019	72,500	97,969
2020-2024	413,500	437,490
2025-2029	485,500	354,123
2030-2034	557,000	221,626
2035-2039	386,000	98,588
2040-2044	193,500	39,835
2045-2046	<u>73,000</u>	<u>4,813</u>
	\$ 2,438,000	\$ 1,676,344

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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 \$103,089 at December 31, 2014 after payment of the November 1 debt service. 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 proceed 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 construction replacements, extensions, additions and/or improvements to the project. The District had set aside \$148,778. The required depreciation reserve was \$150,000 and the District has resumed the monthly deposits to meet this requirement.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014, 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, 2014, participating employers contributed 18.89% for January to June and 17.67% 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>
2014	\$40,588	100%
2013	\$45,792	100%
2012	\$57,042	100%

Note 8 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District carries commercial insurance coverage of risks to the extent deemed prudent by District's management.

Supplemental Schedules –



Western Lewis-Rectorville Water and Gas District
Statement of Revenues and Expenses
For the Year Ended December 31, 2014

<u>OPERATING REVENUE:</u>	<u>Water</u>	<u>Gas</u>	<u>Total</u>
Water and Gas Sales:			
Residential	\$ 648,976	\$ 450,983	\$ 1,099,959
Commerical	80,211	55,739	135,950
Service Charges and Other Revenues	<u>37,262</u>	<u>25,894</u>	<u>63,156</u>
<u>Total Operating Revenues</u>	<u>766,449</u>	<u>532,616</u>	<u>1,299,065</u>
 <u>OPERATING EXPENSES:</u>			
Salaries & Wages - Employees	111,589	77,545	189,134
Salaries & Wages - Officers & Directors	8,496	5,904	14,400
Retirement Expense	19,220	13,357	32,577
Purchased Water and Gas	68,549	309,149	377,698
Purchased Power	29,493	20,495	49,988
Chemicals and Salt	3,881	12,975	16,856
Materials and Supplies	8,396	6,603	14,999
Professional Fees	10,537	7,323	17,860
Maintenance Expense	91,111	8,600	99,711
Rental Expense	3,028	2,105	5,133
Insurance	50,478	35,078	85,556
Regulatory Commission Expense	2,295	1,594	3,889
Depreciation and Amortization	299,757	11,264	311,021
Utilities and Telephone	3,508	2,437	5,945
Office and Program Expense	57,520	39,972	97,492
Taxes Other Than Income	<u>10,423</u>	<u>7,243</u>	<u>17,666</u>
<u>Total Operating Expense</u>	<u>778,281</u>	<u>561,644</u>	<u>1,339,925</u>
 <u>OPERATING INCOME/ (LOSS):</u>	 (11,832)	 (29,028)	 (40,860)
 Non-operating income (expenses)			
Interest income	457	-	457
Gain on Sale of Assets	1,587	-	1,587
Tollesboro Sanitation District No.1 Fee	17,422	-	17,422
Insurance Recoveries	40,000	-	40,000
Interest expense	<u>(111,817)</u>	<u>-</u>	<u>(111,817)</u>
<u>Total Nonoperating Revenues/(Expenses)</u>	<u>(52,351)</u>	<u>-</u>	<u>(52,351)</u>
 <u>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</u>	 (64,183)	 (29,028)	 (93,211)
 Capital Grants	 -	 -	 -
Customer Tap Fees	<u>11,250</u>	<u>-</u>	<u>11,250</u>
 Change in net position	 <u>\$ (52,933)</u>	 <u>\$ (29,028)</u>	 <u>\$ (81,961)</u>

Western Lewis-Rectorville Water Gas District
 Supplemental Information Required by Rural Development
 December 31, 2014

Schedule of Insurance in Force

<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	7/1/2015
Public Officials			
Ky League of Cities Ins	L5715-011110	\$3,000,000	7/1/2015
Automobile			
Ky League of Cities Ins	L5715-011110	\$3,000,000	7/1/2015
Commerical Property			
Buildings & Personal	P5715-011110	\$4,947,103	7/1/2015
Equipment	P5715-011110	\$86,700	7/1/2015
Surety Bond			
CAN Surety	69852281	\$950,000	7/1/2015
Encroachment Bond			
Ohio Casulaty Ins	2610369	\$25,000	12/18/2015
Worker's Comp			
Ky League of Cities Ins	W5715-011120	\$4,000,000	7/1/2015

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2014, accounts receivable were aged as follows:

	<u>Amount</u>
Current	\$ 128,675
Over 30 days	387
Over 60 days	769
Over 90 days	3,696
Total	<u>\$ 133,527</u>

During 2014, the District wrote off no accounts as uncollectable, but carried a reserve for possible uncollectable accounts of \$6,300. Accounts in arrears have been collected or are covered by Deposits.

The District had a total of 2,954 customers at December 31, 2014. Of these customers, 2,677 were Residential and 277 were commercial.

Commissioners:

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



Caudill & Associates, CPA, PLLC

P.O. Box 751, South Shore, KY 41175

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

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

To the Board of Commissioners
Western Lewis-Rectorville Water & Gas District
Maysville, KY 41056

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 Western Lewis-Rectorville Water & Gas District as of and for the year ended December 31, 2014, 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 our report thereon dated October 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Lewis-Rectorville Water & Gas 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 Western Lewis-Rectorville Water & Gas District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Western Lewis-Rectorville Water & Gas District's financial statements are free from 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Caudill & Associates, CPA

Caudill & Associates, CPA, PLLC

October 6, 2015

Western Lewis-Rectorville Water and Gas District
Mason County, Kentucky

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014 AND 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-1	Lack of Segregation of Duties	Yes	Finding No Longer Valid