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Ledbetter Water and Sewer District

**FINANCIAL STATEMENTS
With Independent Auditor's Report**

FOR THE YEAR ENDED DECEMBER 31, 2013

Cornman, Bryan, Watts & Elliott, CPAs, PLLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners
Ledbetter Water & Sewer District

We have audited the accompanying financial statements of Ledbetter Water & Sewer District as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ledbetter Water & Sewer District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Cummer, Bryan, Watts & Elliott, CPAs, PLLC

Grand Rivers, KY
December 15, 2014

LEDBETTER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

The Ledbetter Water and Sewer District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2013. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

The assets of the District exceeded its liabilities by \$1,045,615 at December 31, 2013. Of this amount \$272,095 is restricted and \$648,896 is invested in capital assets net of the related debt, leaving unrestricted net position of \$124,624.

The District's net position increased for the year by \$99,216. During the year ending December 31, 2013, the District received grant income totaling \$89,385.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the Ledbetter Water and Sewer District.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The District's basic financial statements are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. In addition, this report contains other supplementary information to provide the reader additional information about the District.

Fund Financial Statements - The focus of fund financial statements is directed to specific activities of a governmental entity rather than the entity as a whole. The District, like other state and local governments, uses fund accounting. All activities of the District are reported in the enterprise fund, a proprietary fund type.

Because the District consists of only a proprietary fund, government-wide financial statements are not necessary.

The basic proprietary fund financial statements can be found on pages 6-8 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 9-16 of this report.

Supplementary Information – Supplementary information can be found on pages 17-18 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$1,045,615 at December 31, 2013.

During 2013, the District's net capital assets decreased \$99,020 and total long-term debt decreased by \$154,194. These changes were accompanied by an increase in unrestricted net position of \$99,215. The District's overall financial position and results of operations for the past two years are summarized as follows, based on the information included in the financial statements.

	Business-type Activities	
	2013	2012
Assets:		
Current assets	\$ 597,802	\$ 559,395
Capital assets	3,342,708	3,441,728
Total assets	<u>3,940,510</u>	<u>4,001,123</u>
Liabilities:		
Long-term liabilities	2,556,614	2,710,808
Other liabilities	338,281	343,916
Total liabilities	<u>2,894,895</u>	<u>3,054,724</u>
Net position:		
Invested in capital, net of debt	648,896	564,725
Restricted	272,095	208,585
Unrestricted	124,624	173,089
Total net assets	<u>\$ 1,045,615</u>	<u>\$ 946,399</u>
Operating income		
Operating income	\$ 888,755	\$ 833,691
Operating expenses	830,655	801,848
Operating income	<u>58,100</u>	<u>31,843</u>
Tap-on fees	5,100	10,925
Grant receipts	89,385	13,738
Interest revenue	391	785
Interest expense	(53,760)	(60,214)
Change in net assets	<u>99,216</u>	<u>(2,923)</u>
Net position, beginning of year, restated	946,399	949,322
Net position, end of year	<u>\$ 1,045,615</u>	<u>\$ 946,399</u>

A portion of the District's net position (\$648,896) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities.

BUDGETARY HIGHLIGHTS

The original budget and the final budget passed by the board anticipated water and sewer operating revenues of \$469,739 and \$490,946 respectively and operating expenses of \$477,410 and \$322,439

respectively. Actual water operating revenues were under-budget \$31,955 while sewer operating revenues were under-budget \$39,975. Actual water operating expenses were under-budget by \$47,489 while sewer operating expenses were over-budget \$78,495. Actual non-operating water revenues and expenses were under-budget \$7,052 while non-operating sewer revenues and expenses were over-budget by \$209,004. For the year the total water budget variance was a positive \$8,682. For the year the total sewer budget variance was a positive \$90,534.

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2013 was \$3,342,708. During the year ended December 31, 2013, the District purchased upgrades for the sewer system and other small assets. There were no asset disposals during 2013.

	<u>2013</u>	<u>2012</u>
Land	\$ 101,340	\$ 101,340
Construction in progress	136,957	136,957
Plant & Equipment	5,164,435	5,110,481
Buildings	764,640	764,080
Machinery	80,867	80,867
Furniture & fixtures	33,083	33,083
Total capital assets	<u>6,281,322</u>	<u>6,226,808</u>
Less Accumulated Depreciation	<u>(2,938,614)</u>	<u>(2,785,084)</u>
Total capital assets, net	<u>\$ 3,342,708</u>	<u>\$ 3,441,724</u>

LONG-TERM DEBT

The District's long-term debt at December 31, 2013 was \$2,556,614. A schedule of the District's long-term debt at December 31, 2013 follows:

	<u>2013</u>	<u>2012</u>
Revenue Bond Series 1978	\$ 76,000	\$ 93,000
KIA Loan	1,346,329	1,458,523
KACO Loan	1,134,285	1,159,285
Total long-term debt	<u>\$ 2,556,614</u>	<u>\$ 2,710,808</u>

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Ledbetter Water and Sewer District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Billy Downs, Superintendent, Ledbetter Water and Sewer District, 1483 US Highway 60, Ledbetter, KY 42058.

Ledbetter Water & Sewer District
Statement of Net Position - Proprietary Fund
December 31, 2013

	Water	Sewer	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 81,343	\$ 19,556	\$ 100,899
Accounts receivable	37,538	37,792	75,330
Prepaid expenses	1,859	4,614	6,473
Due from sewer	123,413	-	123,413
Restricted cash	120,066	171,621	291,687
Total current assets	364,219	233,583	597,802
Capital assets:			
Non-Depreciable capital assets:			
Construction in progress	125,317	11,640	136,957
Land	3,480	97,860	101,340
Total non-depreciable capital assets	128,797	109,500	238,297
Depreciable capital assets			
Buildings	726,036	38,604	764,640
Machinery	60,368	20,499	80,867
Plant & equipment	1,081,882	4,082,553	5,164,435
Furniture and fixtures	33,083	-	33,083
Less accumulated depreciation	(1,129,976)	(1,808,638)	(2,938,614)
Total depreciable capital assets, net	771,393	2,333,018	3,104,411
Total capital assets	900,190	2,442,518	3,342,708
Total assets	1,264,409	2,676,101	3,940,510
Liabilities			
Current liabilities:			
Current maturities of long-term debt	-	137,194	137,194
Accounts payable trade	15,105	13,804	28,909
Payroll liabilities	19,728	-	19,728
Other current liabilities	1,094	-	1,094
Tenant deposits payable	14,297	13,646	27,943
Due to water	-	123,413	123,413
Total current liabilities	50,224	288,057	338,281
Noncurrent liabilities:			
Notes payable	-	2,480,614	2,480,614
Bonds payable	76,000	-	76,000
Total noncurrent liabilities	76,000	2,480,614	2,556,614
Total liabilities	126,224	2,768,671	2,894,895
Net Position			
Net investment in capital assets	824,187	(175,291)	648,896
Restricted for debt service	100,473	171,622	272,095
Unrestricted	213,525	(88,901)	124,624
Total net position	\$ 1,138,185	\$ (92,570)	\$ 1,045,615

Ledbetter Water & Sewer District
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
Year Ended December 31, 2013

Operating Revenues	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Charges for services	\$ 437,784	\$ 450,971	\$ 888,755
Total operating revenue	<u>437,784</u>	<u>450,971</u>	<u>888,755</u>
 Operating Expenses			
Salary expenses	185,664	138,356	324,020
Water treatment expenses	130,375	126,499	256,874
Maintenance expenses	7,296	7,667	14,963
General operating expenses	61,325	19,942	81,267
Depreciation	45,061	108,470	153,531
Total operating expenses	<u>429,721</u>	<u>400,934</u>	<u>830,655</u>
 Operating income	<u>8,063</u>	<u>50,037</u>	<u>58,100</u>
 Nonoperating Revenue (Expenses)			
Interest revenue	169	222	391
Interest expense	(4,650)	(49,110)	(53,760)
Total nonoperating expenses	<u>(4,481)</u>	<u>(48,888)</u>	<u>(53,369)</u>
 Capital Contributions			
Tap-on fees	5,100	-	5,100
Proceeds from grants	-	89,385	89,385
Total capital contributions	<u>5,100</u>	<u>89,385</u>	<u>94,485</u>
 Change in net assets	<u>8,682</u>	<u>90,534</u>	<u>99,216</u>
 Net position, beginning of year, restated	<u>1,129,503</u>	<u>(183,104)</u>	<u>946,399</u>
 Net position, end of year	<u>\$ 1,138,185</u>	<u>\$ (92,570)</u>	<u>\$ 1,045,615</u>

See accompanying notes and auditor's report.

LEDBETTER WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS-PROPRIETARY FUND
Year Ended December 31, 2013

	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 434,778	\$ 447,303	\$ 882,081
Cash payments to suppliers for goods and services	(201,776)	(141,595)	(343,371)
Cash payments to employees for services	(181,002)	(138,356)	(319,358)
Net cash provided (used) by operating activities	<u>52,000</u>	<u>167,352</u>	<u>219,352</u>
Cash flows from capital and related financing activities:			
Tap-on fees	5,100	-	5,100
Proceeds from grants	-	89,385	89,385
Acquisition and construction of property, plant and equipment	(10,487)	(44,025)	(54,512)
Principal payments on long-term debt	(33,000)	(137,194)	(170,194)
Interest paid on long-term debt	(4,650)	(49,110)	(53,760)
Net cash provided (used) for capital and related financing activities	<u>(43,037)</u>	<u>(140,944)</u>	<u>(183,981)</u>
Cash flows from investing activities:			
Interest on investments	169	222	391
Net cash provided (used) by investing activities	<u>169</u>	<u>222</u>	<u>391</u>
Net increase (decrease) in cash and cash equivalents	9,133	26,630	35,763
Cash and cash equivalents, beginning of year	192,276	164,547	356,823
Cash and cash equivalents, end of year	<u>\$ 201,409</u>	<u>\$ 191,177</u>	<u>\$ 392,586</u>
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents - current	\$ 81,343	\$ 19,556	\$ 100,899
Restricted cash - current	120,066	171,621	291,687
	<u>\$ 201,409</u>	<u>\$ 191,177</u>	<u>\$ 392,586</u>
Reconciliation of Operating Income to Net Cash Provided by Operations:			
Operating income	\$ 8,063	\$ 50,037	\$ 58,100
Adjustments-operating activities			
Depreciation and amortization	45,061	108,470	153,531
(Increase) decrease in:			
Accounts receivable	(2,551)	(1,889)	(4,440)
Prepaid expenses	(98)	1,894	1,796
Increase (decrease) in:			
Accounts payable	200	12,303	12,503
Customer deposits	(455)	(1,779)	(2,234)
Interest Payable	(2,725)	(1,684)	(4,409)
Accrued liabilities	4,506	-	4,506
Net cash provided by operating activities	<u>\$ 52,001</u>	<u>\$ 167,352</u>	<u>\$ 219,353</u>

LEDBETTER WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity - The Ledbetter Water and Sewer District is a county utility district organized on January 7, 1964, and supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes 65.005 and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Ledbetter, Kentucky and primarily serves the Ledbetter and Western Livingston County, Kentucky area.

Principles determining scope of reporting entity - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The governing body of the district is made up of four commissioners and a secretary-treasurer, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of accounting - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the Government Accounting Standards Board and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. Enterprise 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and sewer services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Accounts receivable - The direct write-off method was used for recording un-collectible accounts. No allowance for un-collectible accounts was deemed to be needed.

Utility plant - The utility plant is carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. The utility does not have a specific capitalization threshold. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

	<u>Years</u>
Utility plant	35-50
Office furnishing and equipment	5-10

Use of estimates - 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 reporting period. Actual results could differ from those estimates.

Use of Restricted/Unrestricted Net Position - When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the District's policy is to apply restricted assets first.

Revenue Recognition - Operating revenues are recognized in the period that water is supplied to participants and others. All other revenues are reflected in non-operating income and are recognized when earned.

LEDBETTER WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes on income - The Ledbetter Water and Sewer District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

Budget – The District adopts an annual budget prepared under the basis of accounting utilized in the financial statements.

Cash and cash equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

Capital Contributions- Contributions in aid or construction are derived from two main sources; 1) developers, when they construct and pay for water lines and then donate these additions to the District; and 2) other government, in the form of grant contributions for property, plant, or equipment. Developer contributions are recorded at the developer's cost and are depreciated over their estimated useful lives using the straight-line method. Grant proceeds are recorded as increases to unrestricted net position, and when expended on fixed assets, the costs are depreciated over their useful lives using the straight line method.

2 RESTRICTED CASH AND INVESTMENTS

Sinking Funds - The Ledbetter Water Bond & Interest Sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds. The bond ordinances require that the amount deposited each month equals one-sixth of the next succeeding interest requirement and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2013 the balance of the Water Sinking Fund was \$14,756.

The Ledbetter Sewer Bond & Interest Sinking Fund was established for the purpose of paying the principal and interest on the KIA Loan due in June and December. At December 31, 2013 the balance of the Sewer Sinking Fund was \$69,845.

Depreciation Reserve – The Ledbetter Water Depreciation Reserve account was established to satisfy the bond ordinances requiring the District to make monthly contributions after observing the priority of deposits into the Sinking Fund. The funds in the Depreciation Reserve Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. The District is to maintain a \$35,100 minimum throughout the life of the bonds. At December 31, 2013 the balance of the Depreciation Reserve Fund was \$43,831, the balance of the Depreciation Checking Account was \$19,362, and the balance of the Certificate of Deposit – Reserve was \$27,589 for a total of \$90,782.

The Ledbetter Sewer Depreciation Reserve account required by Kentucky Infrastructure Authority requires an annual transfer of \$22,000 until a balance of \$220,000 is accumulated. The account is not being adequately funded as required to be maintained for the life of the loan. For the year ended December 31, 2013, \$18,118 had been deposited into the Ledbetter Sewer Depreciation Reserve making the balance at December 31, 2013 \$88,130.

Ledbetter Water and Sewer Tenant Deposit Fund - This account is set aside to account for customer deposits. At December 31, 2013 the restricted balance of the Ledbetter Water and Sewer District's Tenant Deposit Fund was \$14,297 and \$13,646 respectively.

LEDBETTER WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

3 DEPOSITS

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could effect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the enterprise fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the district, includes disclosure of the following risks:

- Risks related to custodial credit risk of deposits;
- Deposit and investment policies related to those risks.

Custodial Credit Risk is the risk that in the event of a failure of a depository institution, the district will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2013, the carrying amount of District's deposits was \$392,508 and the bank balance of \$398,831 was categorized as follows:

Insured by FDIC	\$	250,000
Uninsured and collateralized with securities held by the pledging financial institution in the district's name		148,831
Total	\$	398,831

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District does not have a policy for limiting credit risk.

The district does not have deposit and investment policies. However Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

1. Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
2. Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
3. Savings and loan associations insured by the U. S. government;
4. Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U. S. government;
5. Deposit accounts with banking institutions;
6. State treasurer investment pool.

LEDBETTER WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

4 CAPITAL ASSETS

Capital asset activity for Ledbetter Water and Sewer District for the year ended December 31, 2013, was as follows:

	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital assets not being depreciated:				
WIP	\$ 125,317	\$ -	\$ -	\$ 125,317
Land	3,480	-	-	3,480
Total capital assets not being depreciated	<u>128,797</u>	<u>-</u>	<u>-</u>	<u>128,797</u>
Capital assets being depreciated:				
Electric Pump Equipment	49,610	13,103	-	62,713
General Plant	49,734	559	-	50,293
Hydrants	27,940	-	-	27,940
Mains	525,310	-	-	525,310
Meter Installations	14,405	-	-	14,405
Meter	74,930	-	-	74,930
Office Furniture	33,082	-	-	33,082
Other Misc Equipment	38,020	9,927	-	47,947
Services	69,393	-	-	69,393
Tanks	223,691	-	-	223,691
Tools & Shop Equipment	27,254	-	-	27,254
Vehicles & Trans Equipment	33,116	-	-	33,116
Water Treatment Equipment	48,655	-	13,103	35,552
Water Treatment Structure	675,743	-	-	675,743
Total capital assets being depreciated	<u>1,890,883</u>	<u>23,589</u>	<u>13,103</u>	<u>1,901,369</u>
Less accumulated depreciation for:				
Electric Pump Equipment	(49,611)	(1,147)	-	(50,758)
General Plant	(24,294)	(1,604)	-	(25,898)
Hydrants	(12,760)	(599)	-	(13,359)
Mains	(246,701)	(10,690)	-	(257,391)
Meter Installations	(8,296)	(289)	-	(8,585)
Meter	(26,580)	(1,729)	-	(28,309)
Office Furniture	(31,821)	(501)	-	(32,322)
Other Misc Equipment	(29,165)	(3,408)	-	(32,573)
Services	(39,030)	(1,637)	-	(40,667)
Tanks	(112,530)	(9,555)	-	(122,085)
Tools & Shop Equipment	(10,293)	(187)	-	(10,480)
Vehicles & Trans Equipment	(33,115)	-	-	(33,115)
Water Treatment Equipment	(22,321)	(207)	-	(22,528)
Water Treatment Structure	(438,398)	(13,508)	-	(451,906)
Total accumulated depreciation	<u>(1,084,915)</u>	<u>(45,061)</u>	<u>-</u>	<u>(1,129,976)</u>
Total capital assets being depreciated, net	805,968	(21,472)	13,103	771,393
Business-type activities capital assets, net	<u>\$ 934,765</u>	<u>\$ (21,472)</u>	<u>\$ 13,103</u>	<u>\$ 900,190</u>

LEDBETTER WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

4 CAPITAL ASSETS (continued)

	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital assets not being depreciated:				
WIP	\$ 11,640	\$ -	\$ -	\$ 11,640
Land	97,860	-	-	97,860
	<u>109,500</u>	<u>-</u>	<u>-</u>	<u>109,500</u>
Capital assets being depreciated:				
Buildings and improvements	38,604	-	-	38,604
Engineering Cost	285,709	-	-	285,709
General & Office Equipment	74,221	-	-	74,221
Lines	2,465,513	-	-	2,465,513
Plant & Lagoons	1,155,914	24,794	-	1,180,708
Utility Assets	57,171	19,231	-	76,402
Vehicles	20,499	-	-	20,499
Total capital assets being depreciated, net	<u>4,097,631</u>	<u>44,025</u>	<u>-</u>	<u>4,141,656</u>
Less accumulated depreciation for:				
Buildings and improvements	(15,761)	(964)	-	(16,725)
Engineering Cost	(115,983)	(7,143)	-	(123,126)
General & Office Equipment	(62,586)	(2,195)	-	(64,781)
Lines	(990,155)	(61,688)	-	(1,051,843)
Plant & Lagoons	(471,415)	(31,102)	-	(502,517)
Utility Assets	(23,769)	(5,378)	-	(29,147)
Vehicles	(20,499)	-	-	(20,499)
Total accumulated depreciation	<u>(1,700,168)</u>	<u>(108,470)</u>	<u>-</u>	<u>(1,808,638)</u>
Total capital assets being depreciated, net	<u>2,397,463</u>	<u>(64,445)</u>	<u>-</u>	<u>2,333,018</u>
Business-type activities capital assets, net	<u>\$ 2,506,963</u>	<u>\$ (64,445)</u>	<u>\$ -</u>	<u>\$ 2,442,518</u>

Depreciation charged to income was \$149,423 during the year ending December 31, 2013 as follows:

Business-type depreciation:	
Water	\$ 45,061
Sewer	108,470
Total business-type depreciation	<u>\$ 153,531</u>

5 LONG-TERM DEBT

Bonds

The Ledbetter Water and Sewer District Waterworks Revenue Bonds of 1978 were issued in the amount of \$359,000 for the purpose of financing the construction, extension, additions, and improvements to the existing waterworks system. Bond maturity date is 2018. The interest rate is 5%. The issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

LEDBETTER WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

5 LONG-TERM DEBT (continued)

The payment due January 1, 2014 was paid in December 2013. The remaining bond repayment schedule is as follows:

	Principal	Interest	Total
2014	\$ -	\$ -	\$ -
2015	18,000	3,350	\$ 21,350
2016	19,000	2,425	\$ 21,425
2017	19,000	1,475	\$ 20,475
2018	20,000	500	\$ 20,500
	<u>\$ 76,000</u>	<u>\$ 7,750</u>	<u>\$ 83,750</u>

Note Payable

The Ledbetter Water and Sewer District Kentucky Infrastructure Authority note date June 1, 2007, refinanced certain long term debt obligations of the District. The note is 0% with 40 payments. There are no discounts, premiums or fees associated with this loan. Payments are due each June and December. The note and bond repayment schedule is as follows:

	Principal	Interest	Total
2014	\$ 112,194	\$ -	\$ 112,194
2015	112,194	-	\$ 112,194
2016	112,194	-	\$ 112,194
2017	112,194	-	\$ 112,194
2018	112,194	-	\$ 112,194
2019-2023	560,970	-	\$ 560,970
2024-2026	336,583	-	\$ 336,583
	<u>\$ 1,458,523</u>	<u>\$ -</u>	<u>\$ 1,458,523</u>

Leases

On November 9, 2007 Livingston County entered into a refinancing of a financing obligation with Kentucky Association of Counties Leasing Trust (KACoLT) for the financing of a sewer system project for the Ledbetter Water District, Livingston County, Kentucky. The project is included on the capital asset schedule on page 12 of this report. The amount of depreciation included for this project does not include any amortization. The original lease was dated July 1, 2005 for \$3,300,000. During 2007, the Ledbetter Water District paid a lump sum payment of \$2,020,715. The principal amount of the refinanced lease is \$1,184,285 with repayment to be made over a thirty year period starting in November 2007. The Ledbetter Water District has pledged their revenues for repayment of the note and are repaying the note to KACoLT. The lease carries a variable interest rate of 2.863% - 5.032%. The lease required interest only payments for the first 59 months. To reduce these interest payments further, KACO increased the principal by \$109,410, and invested these funds separately to provide a return over the first 59 months of the loan to reduce the interest payable by the district. These funds have been amortized over their period of use which ended in October 2012. As of December 31, 2013, the balance of the lease was \$1,159,285 and the future minimum lease principal and interest requirements for the capital lease is as follows:

LEDBETTER WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

<u>Year End December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014 \$	25,000 \$	57,256 \$	82,256 \$
2015	25,000	55,902	80,902
2016	30,000	54,658	84,658
2017	30,000	53,055	83,055
2018	30,000	51,558	81,558
2019-2023	185,000	231,047	416,047
2024-2028	230,000	179,177	409,177
2029-2033	300,000	112,048	412,048
2034-2037	304,285	27,742	332,027
	<u>\$ 1,159,285</u>	<u>\$ 822,443</u>	<u>\$ 1,981,728</u>

Total debt activity for the district for the year ending December 31, 2012 is as follows:

Debt Schedule:		<u>Balance 1/1/13</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/13</u>	<u>Current Portion</u>
Water	Bonds	\$ 109,000	\$ -	\$ 33,000	\$ 76,000	\$ -
Sewer	KIA	1,570,717	-	112,194	1,458,523	112,194
Sewer	KACO Lease	1,184,285	-	25,000	1,159,285	25,000
		<u>\$ 2,864,002</u>	<u>\$ -</u>	<u>\$ 170,194</u>	<u>\$ 2,693,808</u>	<u>\$ 137,194</u>

6 RETIREMENT PLAN

The Ledbetter Water and Sewer District is a participant in the County Employees Retirement System (CERS), a cost-sharing, multi-employer public employee retirement system. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the state legislature. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 12600 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-4646.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at three (3) percent compounded annually through June 30, 1980, six (6) percent thereafter through June 30, 1986, and four (4) percent thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

Employees are required to contribute 5% of their creditable compensation by State statute. The district is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. Employer contributions rates are set July 1 for the upcoming fiscal year. Employer rates were set at 18.96% effective July 1, 2011, 19.55% effective July 1, 2012 and 18.89% effective July 1, 2013. Contributions for the County Employees Retirement System are as follows:

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Annual Contribution</u>	<u>Percentage Contribution</u>
December 31, 2013	\$ 39,832	\$ 39,832	100%
December 31, 2012	\$ 41,861	\$ 41,861	100%
December 31, 2011	\$ 50,275	\$ 50,275	100%

LEDBETTER WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

7 COMPENSATED ABSENCE

Employees were allowed to carry-over to the following and all subsequent years the amount of 32 hours of sick time. The balance of compensated absence as of December 31, 2013 was \$11,475 and was considered to be a current liability.

8 COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

9 INTEREST EXPENSE

The District incurred interest cost in 2013 for water and sewer of \$4,650 and \$49,110 respectively. The entire amount has been recognized as a current operating expense.

10 INTERFUND ACTIVITY

The amounts due to and from water and sewer are related to operating activity. There is no immediate plan to repay the loans.

LEDBETTER WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - WATER
BUDGET AND ACTUAL
For the Year Ending December 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 469,739	\$ 469,739	\$ 437,784	\$ (31,955)
Total operating revenues	<u>469,739</u>	<u>469,739</u>	<u>437,784</u>	<u>(31,955)</u>
Operating expenses:				
Salary expenses	202,398	202,398	185,664	16,734
Water treatment expenses	119,174	119,174	130,375	(11,201)
Maintenance expenses	34,783	34,783	7,296	27,487
General operating expenses	78,519	78,519	61,325	17,194
Depreciation	42,536	42,536	45,061	(2,525)
Total operating expenses	<u>477,410</u>	<u>477,410</u>	<u>429,721</u>	<u>47,689</u>
Operating income	<u>(7,671)</u>	<u>(7,671)</u>	<u>8,063</u>	<u>15,734</u>
Non-operating income (expenses):				
Tap-on fees	12,634	12,634	5,100	(7,534)
Interest revenue	87	87	169	82
Interest expense	(5,050)	(5,050)	(4,650)	400
Total non-operating revenue (expenses)	<u>7,671</u>	<u>7,671</u>	<u>619</u>	<u>(7,052)</u>
Change in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>8,682</u>	<u>\$ 8,682</u>
Net position, beginning of year, restated			<u>1,108,545</u>	
Net position, end of year			<u>\$ 1,117,227</u>	

LEDBETTER SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - SEWER
BUDGET AND ACTUAL
For the Year Ending December 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 490,946	\$ 490,946	\$ 450,971	\$ (39,975)
Total operating revenues	<u>490,946</u>	<u>490,946</u>	<u>450,971</u>	<u>(39,975)</u>
Operating expenses:				
Salary expenses	132,453	132,453	138,356	(5,903)
Water treatment expenses	11,580	11,580	126,499	(114,919)
Maintenance expenses	45,768	45,768	7,667	38,101
General operating expenses	82,090	82,090	19,942	62,148
Depreciation	50,548	50,548	108,470	(57,922)
Total operating expenses	<u>322,439</u>	<u>322,439</u>	<u>400,934</u>	<u>(78,495)</u>
Operating income	<u>168,507</u>	<u>168,507</u>	<u>50,037</u>	<u>(118,470)</u>
Non-operating income (expenses):				
Tap-on fees	-	-	-	-
Interest revenue	315	315	222	(93)
Proceeds from grants	-	-	89,385	89,385
Interest expense	(168,822)	(168,822)	(49,110)	119,712
Total non-operating revenue (expenses)	<u>(168,507)</u>	<u>(168,507)</u>	<u>40,497</u>	<u>209,004</u>
Change in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>90,534</u>	<u>\$ 90,534</u>
Net position, beginning of year, restated			<u>(183,104)</u>	
Net position, end of year			<u>\$ (92,570)</u>	

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Commissioners
Ledbetter Water & Sewer District

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 Ledbetter Water & Sewer District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Ledbetter Water & Sewer District's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ledbetter Water & Sewer District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ledbetter Water & Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of Ledbetter Water & Sewer District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ledbetter Water & Sewer 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 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.

Cornman, Beyer, Watts & Elliott, CPAs, PLLC

Grand Rivers, KY
December 15, 2014