

NEBO WATER DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2013

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Nebo Water District
Nebo, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Nebo Water District as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 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 upon 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, I 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.

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebo Water 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

Management has omitted the Management Discussion and Analysis and Budgetary Comparison information, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated January 24, 2014, on my consideration of the Nebo Water 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 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 Nebo Water District's internal control over financial reporting and compliance.



Providence, Kentucky
January 24, 2014

**NEBO WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Business-Type Activities
Assets	
Current Assets	
Cash and cash equivalents	\$ 139,129
Accounts receivable	94,042
Inventories	42,706
Prepaid insurance	11,521
Total current assets	287,398
Noncurrent Assets	
Restricted cash	272,743
Capital assets, net of depreciation	1,862,891
Unamortized bond issue costs	6,750
Total noncurrent assets	2,142,384
Total assets	2,429,782
Liabilities	
Current Liabilities	
Accounts payable	58,442
Accrued expenses	16,399
Customer deposits	9,714
Current portion of bonds payable	14,783
Total current liabilities	99,338
Noncurrent Liabilities	
Noncurrent portion of bonds payable	190,217
Total noncurrent liabilities	190,217
Total liabilities	289,555
Net Position	
Contributed capital	2,296,077
Retained earnings (deficit)	(155,850)
Total net position	\$ 2,140,227

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

**NEBO WATER DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position						
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Business-type activities							
Water	\$ (1,129,175)	\$ 1,095,070	\$ 3,200	\$ 52,366	-	\$ 21,461	\$ 21,461
Total business-type activities	(1,129,175)	1,095,070	3,200	52,366	-	21,461	21,461
Total government	\$ (1,129,175)	\$ 1,095,070	\$ 3,200	\$ 52,366	\$ -	21,461	21,461
General Revenues:							
Interest income						2,233	2,233
Total general revenues						2,233	2,233
Change in Net Position						23,694	23,694
Net position, beginning						2,116,533	2,116,533
Net position, ending						\$ 2,140,227	\$ 2,140,227

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

**NEBO WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2013**

	<u>Business-type Activities Enterprise Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 139,129
Accounts receivable	94,042
Inventories	42,706
Prepaid insurance	<u>11,521</u>
Total current assets	<u>287,398</u>
Noncurrent Assets	
Restricted cash	272,743
Capital assets, net of depreciation	1,862,891
Unamortized bond issue costs	<u>6,750</u>
Total noncurrent assets	<u>2,142,384</u>
Total assets	<u>2,429,782</u>
Liabilities	
Current Liabilities	
Accounts payable	58,442
Accrued expenses	16,399
Customer deposits	9,714
Current portion of bonds payable	<u>14,783</u>
Total current liabilities	<u>99,338</u>
Noncurrent Liabilities	
Noncurrent portion of bonds payable	<u>190,217</u>
Total noncurrent liabilities	<u>190,217</u>
Total liabilities	<u>289,555</u>
Net Position	
Contributed capital	2,296,077
Retained earnings (deficit)	<u>(155,850)</u>
Total net position	<u><u>\$ 2,140,227</u></u>

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

**NEBO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Business-type Activities Enterprise Fund</u>
Operating Revenues:	
Charges for services	\$ 1,089,500
Other income	5,570
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Total operating revenues	1,095,070
	<hr/>
Operating Expenses:	
Purchased water	601,903
Purchased power	10,747
Salaries and wages	188,281
Contract services	11,755
Depreciation	124,456
Material and supplies	34,667
Insurance	16,697
Payroll taxes and benefits	66,200
Miscellaneous expense	19,543
Utilities	8,690
Repairs	12,937
Office expense	12,898
Vehicle expense	13,738
Advertising	266
	<hr/>
Total operating expenses	1,122,778
	<hr/>
Operating income (loss)	(27,708)
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Nonoperating revenues (expenses):	
Grant revenue	52,366
Interest income	2,233
Interest expense	(5,857)
Amortization of bond issue costs	(540)
Tap on fees	3,200
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Total nonoperating revenues (expenses)	51,402
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Change in net position	23,694
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Total net position, beginning	2,116,533
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Total net position, ending	\$ 2,140,227
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The accompanying notes are an integral part of these financial statements.

**NEBO WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Business-type Activities Enterprise Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 1,089,500
Payments to suppliers	(753,747)
Payments to employees	(188,281)
Other receipts (payments)	<u>5,570</u>
Net cash provided by operating activities	<u>153,042</u>
Cash Flows from Capital and Related Financing Activities	
Grant revenue	52,366
Principal paid on bonds and notes payable	(106,000)
Interest paid on bonds and notes payable	(5,857)
Capital contributions from customers	3,200
Acquisition of capital assets	(128,230)
Principal proceeds	<u>92,000</u>
Net cash (used) in capital and related financing activities	<u>(92,521)</u>
Cash Flows from Investing Activities	
Interest income	<u>2,233</u>
Net increase in cash and cash equivalents	62,754
Balances, beginning of year	<u>349,118</u>
Balances, ending of year	<u><u>\$ 411,872</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	\$ (27,708)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	124,456
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	13,601
(Increase) decrease in inventory	(256)
(Increase) decrease in prepaid insurance	(417)
Increase (decrease) in accounts payable	31,230
Increase (decrease) in accrued expense	5,572
Increase (decrease) in customer deposits	<u>6,564</u>
Net cash provided by operating activities	<u><u>\$ 153,042</u></u>

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

**NEBO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013**

Note 1. **Summary of Significant Accounting Policies**

A. **Financial Reporting Entity.**

The Nebo Water District (the "District") was created on September 2, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located in Nebo, Kentucky. The District is comprised of three commissioners who are appointed by the Hopkins County Judge Executive and provides water to customers in Hopkins County, Kentucky.

B. **Basis of Presentation.**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all activities of the District. The government-wide financial statements are divided into two types: governmental activities and business-type activities. The District only has business-type activities due to its reliance to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expense of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers as applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliances.

Governmental funds are those funds through which most governmental functions typically are financial. The District does not maintain governmental funds.

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 funds' principal ongoing operations. Operating expenses for the proprietary funds include the costs of operational and contracted services, revenues and expenses no meeting this definition are reported as non-operating revenues and expenses.

C. **Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts

and reported in the financial statements. Basis of accounting relates to the timing of the measurement made regardless of the measurement focus applied.

The government-wide statements and the fund financial statements for the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned including unbilled water service which is accrued. Expenses are recognized at the time the liability is incurred.

D. **Cash and Investments**

For the purpose of the proprietary fund of the Nebo Water District, cash on hand, cash in bank and certificates of deposits are considered to be cash and cash equivalents.

Unrestricted cash is available to be expended for normal operating costs. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and construction projects.

State statute requires that all deposits and investments in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The District's deposits, including certificates of deposit, were fully collateralized as required by state statutes at December 31, 2013.

At year end, bank balances totaled \$411,872. These balances were fully covered by FDIC Insurance.

E. **Inventory**

Inventory is stated at the lower of cost or market. Cost is determined primarily by the first in first-out method.

F. **Capital Assets**

Capital assets, which include property, plant and equipment are reported in the business-type activities column in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance is recorded as expenses. Renewals and betterments are capitalized. Depreciation is provided in the proprietary fund in an amount sufficient to relate the cost of the depreciable assets, to operations over their estimated lives on the straight-line basis. The service lives range from 3 to 50 years.

Note 2. Capital Assets

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

	<u>Balances January 1</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances December 31</u>
Business-type Activities				
Land and land rights	\$ 38,258	\$ -	\$ -	\$ 38,258
Structures and improvements	89,751	-	-	89,751
Distribution reservoirs	825,973	52,366	-	878,339
Transmission mains	2,564,162	-	-	2,564,162
Water meters	420,183	-	-	420,183
Hydrants	27,367	-	-	27,367
Office equipment	50,187	8,544	-	58,731
Tools and shop equipment	170,202	67,320	-	237,522
Pumping equipment	73,138	-	-	73,138
Communication equipment	12,981	-	-	12,981
	<u>4,272,202</u>	<u>128,230</u>	<u>-</u>	<u>4,400,432</u>
Total capital assets	4,272,202	128,230	-	4,400,432
Less accumulated depreciation	<u>(2,413,085)</u>	<u>(124,456)</u>	<u>-</u>	<u>(2,537,541)</u>
Business-type Activities:				
Capital Assets, Net	<u>\$ 1,859,117</u>	<u>\$ 3,774</u>	<u>\$ -</u>	<u>\$ 1,862,891</u>

Note 3 Noncurrent Liabilities

At December 31, 2012, noncurrent liabilities consisted of the following:

	<u>Business-type</u>
Loan payable (B12-03) payable to the Kentucky Infrastructural Authority in the amount of \$ 92,000 maturing in semi-annual installments through 2022. Interest is payable semi-annually on June 1 and December 1 at a rate of 2.0% per annum and principal is payable semi-annually on June 1 and December 1.	92,000
Bonds payable (Series 2007A) payable to the Kentucky Rural Water Corporation in the amount of \$ 168,000 maturing in annual installments through 2022. Interest is payable semi-annually on January 1 and July 1 at a rate of 4.05% per annum and principal is payable annually on January 1.	<u>113,000</u>
Total	205,000
Less amount due in one year	<u>(14,783)</u>
Amount due in more than one year	<u>\$ 190,217</u>

The following is a summary of the revenue bond transaction of the District for the year ended December 31, 2013:

	Balances 12/31/12	Additions	Reductions	Balances 12/31/13	Due Within One Year
KIA Loan B12-03	\$ -	\$ 92,000	\$ -	\$ 92,000	\$ 3,783
2001 Series	96,000	-	96,000	-	-
2007A Series	123,000	-	10,000	113,000	11,000
Total	\$ 219,000	\$ 92,000	\$ 106,000	\$ 205,000	\$ 14,783

The following is a bond retirement schedule for each issue:

KIA Loan B12-03

Year Ending December 31	Bonds Due	Interest Due	Total	Bonds Outstanding End of Year
2013				\$ 92,000
2014	\$ 3,783	\$ 1,827	\$ 5,610	88,217
2015	3,859	1,745	5,604	84,358
2016	3,936	1,668	5,604	80,422
2017	4,015	1,589	5,604	76,407
2018	4,096	1,508	5,604	72,311
2019-2033	72,311	11,745	84,056	-
Total	\$ 92,000	\$ 20,082	\$ 112,082	

Series of 2007A

Year Ending December 31	Bonds Due	Interest Due	Total	Bonds Outstanding End of Year
2013				\$ 113,000
2014	\$ 11,000	\$ 4,354	\$ 15,354	102,000
2015	11,000	3,908	14,908	91,000
2016	12,000	3,442	15,442	79,000
2017	12,000	2,957	14,957	67,000
2018	12,000	2,471	14,471	55,000
2019-2022	55,000	4,597	59,597	-
Total	\$ 113,000	\$ 21,729	\$ 134,729	

Note 4. Purchase Contracts

The District entered into a purchase agreement with the City of Madisonville, Kentucky. The District is billed monthly for the water usage.

Note 5. Litigation

The District attorney is unaware of any pending litigation against the District.

Note 6. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchased commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION



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Certified Public Accountant

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Providence, KY 42450

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*

Independent Auditor's Report

To The Commissioners
Nebo Water District

I 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Nebo Water District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Nebo Water District's basic financial statements, and have issued my report thereon dated January 24, 2014.

Internal Control Over Financial Reporting

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

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

My 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 my audit I did not identify any deficiencies in internal control that I 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 Nebo Water District's financial statements are free from 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 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*.

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.

A handwritten signature in black ink, appearing to read "Michael R. Lambert CPA". The signature is written in a cursive, flowing style.

Providence, Kentucky
January 24, 2014