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OHIO COUNTY WATER DISTRICT  
HARTFORD, KENTUCKY  
FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

 **GILBERT & GILBERT, P.S.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

OHIO COUNTY WATER DISTRICT  
HARTFORD, KENTUCKY  
FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

PRINCIPAL OFFICERS

Harry Storm	Chairman
Ben Everly	Vice Chairman
Dewayne Johnson	Secretary
Chuck Price	Treasurer
Doug McKenney	Commissioner
Cletus Greer	Commissioner
Mark Whitehouse	Commissioner
Walter Beasley	General Superintendent

OHIO COUNTY WATER DISTRICT  
HARTFORD, KENTUCKY  
FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

MEMBER  
AMERICAN INSTITUTE OF CPA'S  
KENTUCKY SOCIETY OF CPA'S

Commissioners of the Ohio County Water District  
Hartford, KY 42347

We have audited the accompanying statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows of Ohio County Water District as of for the year ended December 31, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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 of 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 the Ohio County Water District as of December 31, 2013 and 2012, and the respective changes in financial position and 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 information on pages 2-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 Reporting Required by Government Auditing Standards.**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014 on our consideration of the Ohio County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ohio County Water District's internal control over financial reporting and compliance.

Gilbert & Gilbert CPA's

*Gilbert & Gilbert CPA's*

Glasgow, KY

June 30, 2014

OHIO COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

Our discussion and analysis of the Ohio County Water District financial performance provides an overview of the District's financial activities for the year ended December 31, 2013 and 2012 and 2011. The information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ending December 31, 2013, total operating and non-operating revenues (including capital contributions) totaled \$3,906,838 and expenses amounted to \$3,838,635 creating an increase in net position of \$68,203. At year end, net position totaled \$22,028,745 of which \$17,229,265 (net of related debt) was invested in capital assets and \$1,508,725 was restricted for debt service. This left a net amount of \$3,290,755 of unrestricted assets.

For the year ending December 31, 2012, total operating and non-operating revenues (including capital contributions) totaled \$4,278,278 and expenses amounted to \$3,831,783 creating an increase in net position of \$446,495. At year end, net position totaled \$21,960,542 (restated) of which \$16,713,251 (net of related debt) was invested in capital assets and \$2,253,494 was restricted for debt service. This left a net amount of \$2,993,797 of unrestricted assets.

For the year ending December 31, 2011, total operating and non-operating revenues (including capital contributions) totaled \$7,365,282 and expenses amounted to \$4,581,952 creating an increase in net position of \$2,783,330. At year end, net position totaled \$21,514,047 of which \$16,264,145 (net of related debt) was invested in capital assets and \$1,938,126 was restricted for debt service. This left a net amount of \$3,311,776 of unrestricted assets.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis and the Basic Financial Statements. The Financial Statements include notes, which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements of Ohio County Water District report information of Ohio County Water District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statements of Net Position includes all of Ohio County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Ohio County Water District's creditors (liabilities). It also provides the basis of evaluation of the capital structure of Ohio County Water District and assessing the liquidity and financial flexibility of Ohio County Water District.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure the success of Ohio County Water District's operations over the past year and can be used to determine whether Ohio County Water District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statements of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

OHIO COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

Financial Analysis of Ohio County water District

Ohio County Water District  
Statement of Net Position-Summary  
December 31,

	2013	2012	2011
<b>Assets:</b>			
Total Current Assets	\$ 1,448,827	\$ 1,481,749	\$ 1,245,225
Total Restricted Assets	3,934,780	4,669,511	4,137,890
Net Capital Assets	31,232,295	31,461,173	31,772,190
Other Assets	<u>17,339</u>	<u>19,151</u>	<u>24,384</u>
Total Assets	\$ <u>36,633,241</u>	\$ <u>37,631,584</u>	\$ <u>37,179,689</u>
<b>Liabilities:</b>			
Total Current Liabilities	\$ 1,957,877	\$ 1,998,423	\$ 766,621
Total Long-Term Liabilities	<u>12,646,619</u>	<u>13,672,619</u>	<u>14,899,021</u>
Total Liabilities	\$ <u>14,604,496</u>	\$ <u>15,671,042</u>	\$ <u>15,665,642</u>
<b>Net Position:</b>			
Invested in capital assets, net of related debt	\$ 17,229,265	\$ 16,713,251	\$ 16,264,145
Restricted for debt service	1,508,725	2,253,494	1,938,126
Unrestricted	<u>3,290,755</u>	<u>2,993,797</u>	<u>3,311,776</u>
Total Net Position	\$ <u>22,028,745</u>	\$ <u>21,960,542</u>	\$ <u>21,514,047</u>

The largest portion (79%, 77%, and 76% per year respectively) of the Water District's net position is reflected by investment in capital assets, less any related debt used to acquire those assets still outstanding. The Water District uses these capital assets to provide services to consumers; consequently, these assets are not available for future spending.

Restricted for debt service (7%, 11%, and 9% per year respectively) represents resources that are subject to external restrictions on how they may be used.

The balance (14%, 12%, and 15% per year respectively) of unrestricted net position may be used to meet the Water District's ongoing obligations to consumers and creditors.

OHIO COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

Ohio County Water District  
Statement of Operations-Summary  
For the Year Ended December 31,

	2013	2012	2011
Total operating revenues	\$ 3,566,292	\$ 3,696,725	\$ 3,545,030
Total operating expenses	<u>3,261,710</u>	<u>3,258,975</u>	<u>3,355,317</u>
Operating Income	304,582	437,750	189,713
Total non-operating revenue (expenses)	<u>(537,757)</u>	<u>(518,914)</u>	<u>(1,164,333)</u>
Income before capital contributions	(233,175)	(81,164)	(974,620)
Capital contributed	<u>301,378</u>	<u>527,659</u>	<u>3,757,950</u>
Change in net position	68,203	446,495	2,783,330
Beginning of year	<u>21,960,542</u>	<u>21,514,047</u>	<u>18,730,717</u>
End of year	\$ <u>22,028,745</u>	\$ <u>21,960,542</u>	\$ <u>21,514,047</u>

For the calendar year 2013, net position increased by \$68,203 and consisted of operating income of \$304,582, net non-operating expenses of \$537,757 and capital contributions of \$301,378.

For the calendar year 2012, net position increased by \$446,495 and consisted of operating income of \$437,750, net non-operating expenses of \$518,914 and capital contributions of \$527,659.

For the calendar year 2011, net position increased by \$2,783,330 and consisted of operating income of \$189,713, net non-operating expenses of \$1,164,333 and capital contributions of \$3,757,950.

Capital Asset Changes

At December 31, 2013, the Water District had invested \$31,232,295 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$228,878 from the previous year. The net decrease consisted of additions to capital assets of \$856,164 less net costs of assets sold and abandoned of \$16,288 less depreciation expense of \$1,068,754. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues.

At December 31, 2012 the Water District had invested \$31,461,173 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$311,017 from the previous year. The net decrease consisted of additions to capital assets of \$892,768 less net costs of assets sold and abandoned of \$151,685 and depreciation expense of \$1,052,100. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues.

At December 31, 2011 the Water District had invested \$31,772,190 in capital assets net of accumulated depreciation. This amount represents a net increase of \$2,785,764 from the previous year. The net increase consisted of additions to capital assets of \$14,043,813 less net costs of assets sold and abandoned of \$10,406,291 and depreciation expense of \$851,758. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues.

OHIO COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013

Debt Administration

At December 31, 2013, the Water District had \$9,197,500 revenue bonds outstanding and \$4,815,269 of loans payable outstanding. This represents a decrease of \$177,500 and an decrease of \$832,837 from the prior year balances of \$9,375,000 and \$5,648,106 respectively.

At December 31, 2012, the Water District had \$9,375,000 revenue bonds outstanding and \$5,648,106 of loans payable outstanding. This represents a decrease of \$85,000 and an decrease of \$138,116 from the prior year balances of \$9,460,000 and \$5,509,990 respectively.

At December 31, 2011, the Water District had \$9,460,000 revenue bonds outstanding and \$5,509,990 of loans payable outstanding. This represents an increase, of \$8,120,000 in bonds and a decrease of \$7,667,234 in loans from the prior year balances of \$1,340,000 and \$13,157,224 respectively.

Other Matters

Ohio County Water District serves approximately 6,000 residential and commercial customers in Breckenridge, Daviess, Grayson , and Ohio Counties, including the Cities of Beaver Dam and Fordsville.

In December 2006, the Water District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant is \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Total payoff of the existing bond issues equalled \$6,398,500. Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the Water District providing \$2,000,000. The Ohio County Fiscal Court paid \$550,000 towards the amount of the project they agreed to cover (\$3,000,000) and is servicing the remainder debt of \$2,450,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bear a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of (20) years.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Ohio County Water District's finances and to demonstrate Ohio County Water District's accountability for the funds it receives. If you have any questions about this report or need additional information, please contact the Ohio County Water District at 124 E. Washington Street, Hartford, KY 42347.



OHIO COUNTY WATER DISTRICT  
HARTFORD, KENTUCKY  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 714,587	\$ 720,035
Accounts Receivable-Customers	297,557	296,959
Accounts Receivable-Other	161,625	188,924
Prepaid Expenses	18,093	1,602
Unbilled Revenue Receivable	254,063	266,855
Interest Receivable	<u>2,902</u>	<u>7,374</u>
Total Current Assets	<u>1,448,827</u>	<u>1,481,749</u>
<b>RESTRICTED ASSETS</b>		
Debt Service Funds		
Cash and Cash Equivalents	500,378	492,214
Construction Funds		
Cash and Cash Equivalents	0	372,802
Depreciation Fund		
Cash and Cash Equivalents	363,051	0
Investments	1,863,049	1,842,674
Debt Service Reserve Funds		
Cash and Cash Equivalents	0	0
Investments	1,057,180	1,867,725
Replacement Reserve Funds		
Cash and Cash Equivalents	<u>151,122</u>	<u>94,096</u>
Total Restricted Assets	<u>3,934,780</u>	<u>4,669,511</u>
<b>PROPERTY PLANT AND EQUIPMENT AND INTANGIBLES, at cost less Accumulated Depreciation</b>		
	<u>31,232,295</u>	<u>31,461,173</u>
<b>OTHER ASSETS</b>		
Unamortized Debt Discount	<u>17,339</u>	<u>19,151</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>36,633,241</u></b>	<b>\$ <u>37,631,584</u></b>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT  
HARTFORD, KENTUCKY  
STATEMENTS OF NET POSITION-CONTINUED

NET POSITION AND LIABILITIES

	<u>2013</u>	<u>2012</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 101,244	\$ 72,791
Construction Payable	7,601	116,769
Accrued Payroll Taxes	12,908	5,688
Sales Tax Payable	1,497	1,353
Utility Tax Payable	14,665	14,311
Accrued Salaries	26,236	19,845
Accrued Interest	199,955	200,541
Current Portion of Long-Term Debt	1,407,066	1,386,868
Current Portion of Compensated Absence	7,221	6,420
Accrued Retirement	15,382	13,308
Customers' Deposits	<u>164,102</u>	<u>160,529</u>
 Total Current Liabilities	 <u>1,957,877</u>	 <u>1,998,423</u>
<b>LONG-TERM LIABILITIES (net of current portion)</b>		
Loan Payable Kentucky Infrastructure Authority	0	1,027,500
Loan Payable Kentucky Infrastructure Authority (WTP)	3,594,702	3,411,238
Revenue Bonds Payable Series A&B.	8,011,000	8,107,500
Revenue Bonds Payable Series 2003	1,000,000	1,090,000
Compensated Absences	<u>40,917</u>	<u>36,381</u>
 Total Long-Term Debt	 <u>12,646,619</u>	 <u>13,672,619</u>
<b>TOTAL LIABILITIES</b>	 <u>14,604,496</u>	 <u>15,671,042</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	17,229,265	16,713,251
Restricted for Debt Service	1,508,725	2,253,494
Unrestricted	<u>3,290,755</u>	<u>2,993,797</u>
 TOTAL NET POSITION	 \$ <u>22,028,745</u>	 \$ <u>21,960,542</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT  
HARTFORD, KENTUCKY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Water Sales	\$ 3,415,618	\$ 3,544,901
Miscellaneous Service Revenue	44,065	53,125
Penalties	71,421	75,489
Other Revenues	<u>35,188</u>	<u>23,210</u>
Total Operating Revenue	3,566,292	3,696,725
<b>OPERATING EXPENSES</b>		
Salaries/Wages	766,610	730,498
Payroll Tax Expense	56,469	58,860
Employee Pension/Benefits	283,765	320,934
Purchased Water	0	0
Utilities	283,473	269,475
Chemicals	140,174	98,636
Materials and Supplies	144,867	197,666
Contractual Services	271,248	282,695
Rental of Building/Real Estate	824	812
Rental of Equipment	0	1,717
Transportation Expense	104,751	110,614
Insurance	64,192	59,431
Regulatory Commission Expense	6,630	6,252
Bad Debts	22,321	23,661
Telephone Expense	12,029	11,178
Miscellaneous	36,956	35,799
Depreciation	<u>1,067,401</u>	<u>1,050,747</u>
Total Operating Expenses	3,261,710	3,258,975
<b>OPERATING INCOME</b>	<u>304,582</u>	<u>437,750</u>
<b>NON OPERATING REVENUES (EXPENSES)</b>		
Interest Income	23,694	36,944
Gain on Sale of Equipment	4,274	3,050
Interest Expense	(545,674)	(550,518)
Amortization of Debt Discount	(1,809)	(5,233)
Non Utility Income	11,200	13,900
Non Utility Expense	(13,154)	(7,136)
Loss on Abandoned Property	<u>(16,288)</u>	<u>(9,921)</u>
Total Other Income (Expenses)	<u>(537,757)</u>	<u>(518,914)</u>
<b>INCOME BEFORE CONTRIBUTED CAPITAL</b>	\$ <u>(233,175)</u>	\$ <u>(81,164)</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT  
HARTFORD, KENTUCKY  
STATEMENT OF REVENUES , EXPENSES, AND CHANGES IN NET POSITION (Continued)  
YEARS ENDED DECEMBER 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
INCOME BEFORE CONTRIBUTED CAPITAL(Carried Forward)	\$ (233,175)	\$ (81,164)
<b>CONTRIBUTED CAPITAL</b>		
Grant Income	0	0
Capital Contributions from Customers	29,700	47,115
Capital Contributions from Other Government	271,178	272,373
Capital Contributions from Others	<u>500</u>	<u>208,169</u>
Total Contributed Capital	<u>301,378</u>	<u>527,659</u>
 CHANGE IN NET POSITION	 68,203	 446,495
NET POSITION- JANUARY 1 (RESTATEd)	<u>21,960,542</u>	<u>21,514,047</u>
NET POSITION- DECEMBER 31	<u>\$ 22,028,745</u>	<u>\$ 21,960,542</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT  
HARTFORD, KENTUCKY  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 3,605,785	\$ 3,689,737
Cash payments to suppliers	(1,181,098)	(1,108,471)
Cash payments to employees	<u>(1,085,324)</u>	<u>(1,117,080)</u>
Net cash provided by operating activities	1,339,363	1,464,186
<b>Cash flows from noncapital financing activities:</b>		
Proceeds from noncapital financing	<u>0</u>	<u>0</u>
Net proceeds from noncapital financing	0	0
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from loan	393,779	160,466
Proceeds from equipment sales	4,274	11,230
Proceeds from capital contribution	301,378	527,659
Principal payments	(1,404,117)	(274,946)
Interest on long term debt, net of amount capitalized	(540,855)	(384,474)
Other interest	(5,402)	0
Net capital expenditure	<u>(856,164)</u>	<u>(993,289)</u>
Net cash used in capital and related financing activities	(2,107,107)	(953,354)
<b>Cash flows from investing activities:</b>		
Sale of Investments	790,170	0
Purchase of investments	0	(784,239)
Interest income	28,166	37,280
Other non utility income/expense	<u>(601)</u>	<u>6,764</u>
Net cash flows investing activities	<u>817,735</u>	<u>(740,195)</u>
Net increase (decrease) in cash and cash equivalents	49,991	(229,363)
Cash and cash equivalents at beginning of year	<u>1,679,147</u>	<u>1,908,510</u>
Cash and cash equivalents at end of year.	\$ <u>1,729,138</u>	\$ <u>1,679,147</u>
<b>Non cash capital and related financial activities:</b>		
Loss on bond retirement	0	0
Loss on abandoned property	<u>16,288</u>	<u>9,921</u>
	\$ <u>16,288</u>	\$ <u>9,921</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT  
HARTFORD, KENTUCKY  
STATEMENT OF CASH FLOWS-CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Reconciliation of operating income to net cash</b>		
<b>    Provided by operating activities:</b>		
Operating Income	\$ 304,582	\$ 437,750
<b>Adjustments to reconcile net income to net cash</b>		
<b>    Provided by operating activities:</b>		
Depreciation	1,067,401	1,050,747
<b>Change in assets and liabilities:</b>		
(Increase) decrease in customers receivable	(598)	10,088
(Increase) decrease in other receivable	27,299	(3,707)
(Increase) decrease in prepaid expenses	(16,491)	26,460
(Increase) decrease in unbilled revenue receivable	12,792	(13,369)
(Increase) decrease in accounts payable	52,254	(378)
Increase (decrease) in insurance payable	(23,801)	23,801
Increase (decrease) in construction payable	(109,168)	(63,680)
Increase (decrease) in accrued taxes and retirement	9,792	(10,812)
Increase (decrease) in accrued salaries	6,391	1,259
Increase (decrease) in compensated absences	5,337	2,765
Increase (decrease) in customer deposits	<u>3,573</u>	<u>3,262</u>
Net cash provided (used) by operating activities	\$ <u>1,339,363</u>	\$ <u>1,464,186</u>

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

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 1- SIGNIFICANT ACCOUNTING POLICIES**

(a) The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or prepaid amounts have been utilized.

(b) The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities) at the date of the financial statements and of reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) The Ohio County Water District was created April 2, 1962, under KRS Chapter 74. The governing board currently consists of seven (7) commissioners; five (5) commissioners are appointed by the Ohio County Fiscal Court and two (2) commissioners are appointed by the Daviess County Fiscal Court. The purpose of the District is to provide water to customers within its service area.

(d) Management has determined that all accounts receivable carried on the balance sheet at December 31, 2013 and 2012 are collectable and therefore no allowance for uncollectible accounts is necessary.

(e) Capital assets are defined as assets with an individual cost of more than \$2,500. Capital assets are reported at cost or the fair market value at the time of contribution to the utility. Major outlays are capitalized as projects are constructed. Interest is capitalized on fixed assets constructed with borrowed funds. The amount of interest to be capitalized is calculated by offsetting interest expense from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Operating supplies are expensed at time of purchase. Unused pipe and related materials at the end of each year to be used in future construction are recorded at cost as a fixed asset. Depreciation is computed on the straight-line method over the following useful lives:

	Years
Organization expense	40
Cost of water contracts	40
Land improvements	10-20
Pumping treatment plant and equipment	5-50
Transmission and distribution system	5-50
Other equipment	5-10

(f) The costs (issuance costs and discount) incurred in obtaining long-term financing are being amortized over the life of the debt.

(g) Consistent with rate-making treatment, rate case expense is being amortized over a 3 year period beginning with the year the new rates are implemented.

(h) Water sold but unmetered at the date of the financial statements is estimated based on subsequent billing and included in current assets.

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 1- SIGNIFICANT ACCOUNT POLICIES (CONTINUED)**

(i) For purposes of the statement of cash flows, Ohio County Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents.

(j) The District accrues a liability for vested vacation and personal leave pay.

(k) The District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989. Unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs").

(l) 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 needed.

(m) Operating revenues are revenues generated by providing services to customers and include water sales, services revenue, penalties and other miscellaneous operating revenues. Nonoperating revenues are located in the statement of revenues and expenses after operating income (operating revenues less operating expenses). Nonoperating income includes interest income and contributed capital.

(n) Net position represents the difference between assets and liabilities. Net Position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets 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. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments.

(o) In March 2012, the Government Accounting Standards Board (GASB) issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No.4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources on the statement of net position. In addition, GASB 65 recognizes certain items currently being reported as assets and liabilities such as debt insurance costs, as current-year outflows and inflows of resources reported on the statement of revenues, expenses, and changes in net position. The requirements of GASB 65 are effective for fiscal year 2014, but have been early-implemented as of and for the year ended December 31, 2013. The implementation of GASB 65 will result in the removal of \$64,622 of unamortized bond issue costs as of December 31, 2012, and result in the reduction of beginning unrestricted net position by the same amount. For comparative purposes, the restatement has also been applied to the net position balance as of December 31, 2011 in the financial statements as of and for the year ended December 31, 2012. The net effects of the restatements are as follows:

	<u>2012</u>	<u>2011</u>
Net position December 31, as originally reported	\$ 22,025,164	\$ 21,582,090
Less: Bond issuance costs, net, December 31	<u>(64,622)</u>	<u>(68,043)</u>
Restated net position, December 31	<u>\$ 21,960,542</u>	<u>\$ 21,514,047</u>



**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

(p) Management has evaluated subsequent events through June 30, 2014 the date the financial statements were available to be issued.

**NOTE 2- RESTRICTED ASSETS**

**(a) Debt Service Funds:**

The Debt Service Funds at December 31, consisted of the following:

	<u>2013</u>	<u>2012</u>
Debt Service Fund KIA	\$ 10,094	\$ 10,051
Debt Service Fund Revenue Bond 2003	167,630	56,383
Debt Service Fund Rural Development Loan	234,483	340,171
Debt Service Fund KIA	<u>88,171</u>	<u>85,609</u>
	<u>\$ 500,378</u>	<u>\$ 492,214</u>

The funds are required under current debt instruments. Funds are restricted for paying interest and principle of the respective long-term debt.

The Debt Service Fund KIA was invested in a savings account with an interest rate of 1.0%. at year end 2012. The investment is stated at cost which approximates market value.

At year end December 31, 2013, the Debt Service Fund Revenue Bonds was invested in savings accounts with an interest rate of .75% . At December 31, 2012, Debt Service Fund Revenue Bonds was invested in savings accounts with an interest rate of .1.89%. The investments are stated at cost, which approximates market value.

**(b) Construction Funds:**

The Construction Funds at December 31, consisted of the following:

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalent:		
Construction Fund Water Treatment Plant	\$ <u>0</u>	\$ <u>372,802</u>
	<u>\$ 0</u>	<u>372,802</u>

Construction Funds are restricted to paying the costs associated with each respective project.

**(c) Depreciation Fund:**

The Depreciation Fund was created and continued under previous Revenue Bond Ordinances. Funds are restricted for paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 2- RESTRICTED ASSETS (CONTINUED)**

and the cost of constructing additions and improvements to the system. The fund shall also be available for transfer to the debt service fund in order to avoid default in connection with any outstanding debt payable or to purchase outstanding debt in advance of maturity. At December 31, 2013, the fund consisted of two certificate of deposit totaling \$2,226,100. The investments are stated at cost, which approximates market value.

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 363,051	\$ 0
Investments	<u>1,863,049</u>	<u>1,842,674</u>
	<u>\$ 2,226,100</u>	<u>\$ 1,842,674</u>

The Debt Service Reserve Funds at December 31, consists of the following:

**(d) Debt Service Reserve Funds:**

	<u>2013</u>	<u>2012</u>
Debt Service Reserve Fund KIA	\$ 914,104	\$ 1,725,716
Debt Service Reserve Fund Revenue Bonds Series 2003	<u>143,076</u>	<u>142,009</u>
	<u>\$ 1,057,180</u>	<u>\$ 1,867,725</u>

Debt Service Reserve Fund KIA:

The Debt Service Reserve Fund KIA was established by the Kentucky Infrastructure Authority (“Authority”) from the proceeds of the bonds issued to provide financing sources for loans to government agencies. The fund is held by the Authority for additional security in the event of any loan defaults relating to the group of loans (Fund C, series 1993F) payable to the Authority. The Authority has legal title to such funds, subject to the rights of the bondholders to claim such funds in the event the Authority fails to make timely payments on the bonds. It is the intent of the Authority to apply the fund amounts to the governmental agencies’ final loan payments.

The amount carried on the balance sheet represents the amount that is related to the Ohio County Water District Portion of the fund held by the Authority. The funds restricted in that they can only be used to apply towards the final payments on the loan from the Authority.

The funds are invested in government securities.

The investment is stated at cost, adjusted for accretion over the contractual life.

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

Note 2- Restricted Assets (Continued)

**Debt Service Reserve Fund Revenue Bonds Series 2003:**

The Debt Service Reserve Fund Revenue Bonds Series 2003 was established by a resolution adopted by the Commission of the Water District dated October 28, 2003. The amounts on deposit in the reserve fund shall be withdrawn and used to prevent a default in making payments of principal and interest on the bonds if the amount in the debt service fund is not sufficient to make such payments. In the event of any withdrawal, the District shall restore such deficiencies monthly into the reserve fund 1/36 of the amount required to be accumulated in the reserve funds until the total required debt service reserve shall have been restored. The required reserve balance is \$136,105.19. Any revenues in excess of the required debt service reserve shall be transferred to the debt service fund.

The Debt Service Reserve Fund Series 2003 consists of a two (2)-year certificate of deposit maturing December 16, 2014, with an interest rate of .75%. The investment is stated at cost, which approximates market value.

**(e) Replacement Reserve Fund**

Required by the new funding sources, the replacement reserve fund consist of two savings accounts.

	<u>2013</u>	<u>2012</u>
RD Replacement Fund	\$ 106,910	\$ 62,575
KIA Replacement Fund	<u>44,212</u>	<u>31,521</u>
	\$ <u>151,122</u>	\$ <u>94,096</u>

**NOTE 3- CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for 2013 follows:

	Balance 12-31-12	Increases	Decreases	Balance 12-31-13
Capital assets, not being depreciated:				
Land and land rights	<u>363,937</u>	<u>0</u>	<u>0</u>	<u>363,937</u>
Capital assets being depreciated:				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	8,043,289	509,256	0	8,552,545
Pumping and treatment plant and equipment	7,418,830	6,717	0	7,425,547
Transmission and distribution system	23,323,905	384,739	0	23,708,644
Other equipment	<u>943,183</u>	<u>61,916</u>	<u>32,413</u>	<u>972,686</u>
<b>Total Capital Assets Being Depreciated</b>	<u>39,738,452</u>	<u>962,628</u>	<u>32,413</u>	<u>40,668,667</u>
<b>Total Capital Assets</b>	40,102,389	962,628	32,413	41,032,604
Less: Accumulated Depreciation				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	434,499	228,967	0	663,466
Pumping and treatment plant and equipment	857,070	273,129	0	1,130,199
Transmission and distribution system	7,082,420	504,986	0	7,587,406
Other equipment	<u>572,264</u>	<u>61,672</u>	<u>16,125</u>	<u>617,811</u>
<b>Total Accumulated Depreciation</b>	<u>8,955,498</u>	<u>1,068,754</u>	<u>16,125</u>	<u>10,008,127</u>
Construction in process	<u>314,282</u>	<u>207,818</u>	<u>314,282</u>	<u>207,818</u>
<b>Net Capital Assets</b>	<u>31,461,173</u>	<u>101,692</u>	<u>330,570</u>	<u>31,232,295</u>

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 3- CHANGES IN CAPITAL ASSETS (CONTINUED)**

A summary of changes in capital assets for 2012 follows:

	Balance 12-31-11	Increases	Decreases	Balance 12-31-12
Capital assets, not being depreciated:				
Land and land rights	<u>360,759</u>	<u>3,178</u>	<u>0</u>	<u>363,937</u>
Capital assets being depreciated:				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	8,023,511	19,778	0	8,043,289
Pumping and treatment plant and equipment	7,418,830	0	0	7,418,830
Transmission and distribution system	22,828,789	510,184	15,068	23,323,905
Other equipment	<u>941,062</u>	<u>45,346</u>	<u>43,225</u>	<u>943,183</u>
<b>Total Capital Assets Being Depreciated</b>	<u><b>39,221,437</b></u>	<u><b>575,308</b></u>	<u><b>58,293</b></u>	<u><b>39,738,452</b></u>
<b>Total Capital Assets</b>	<b>39,582,196</b>	<b>578,486</b>	<b>58,293</b>	<b>40,102,389</b>
Less: Accumulated Depreciation				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	212,379	222,120	0	434,499
Pumping and treatment plant and equipment	585,073	271,997	0	857,070
Transmission and distribution system	6,593,303	494,264	5,147	7,082,420
Other equipment	<u>545,500</u>	<u>63,719</u>	<u>36,955</u>	<u>572,264</u>
<b>Total Accumulated Depreciation</b>	<u><b>7,945,500</b></u>	<u><b>1,052,100</b></u>	<u><b>42,102</b></u>	<u><b>8,955,498</b></u>
Construction in process	<u>135,494</u>	<u>314,282</u>	<u>135,494</u>	<u>314,282</u>
<b>Net Capital Assets</b>	<u><b>31,772,190</b></u>	<u><b>(159,332)</b></u>	<u><b>151,685</b></u>	<u><b>31,461,173</b></u>

Construction in process at December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Materials and Supplies	201,818	166,388
Water District Projects	6,000	0
Water Treatment Plant	0	147,894
Capitalized Interest	<u>0</u>	<u>0</u>
	<u><b>207,818</b></u>	<u><b>314,282</b></u>

Depreciation expense of \$1,068,754 is reported in the statement of revenue and expenses in two separate amounts; as depreciation expense in operating expenses of \$1,067,401 and \$1,353 is included in other income and expense, non utility expenses.

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 4 EMPLOYEE BENEFIT PLAN**

Plan Description

Substantially all full-time Ohio County Water District employees are covered by the County Employee Retirement System (CERS), a multiple employer cost sharing defined benefit pension plan providing for retirement, disability, and death benefits to plan members. CERS provides benefits based on an employee's compensation and number of years of service. Benefits are subject to reduction if the employee retires before reaching age 65 or has less than 30 years of service. Vesting begins immediately upon entry into the system and are fully vested after 60 months of service, of which 12 months must be current service. The plan also provides for disability, death and survivor benefits and medical insurance. CERS issues a publicly available financial report that includes historical trend information about progress made in accumulating sufficient assets to pay benefits when due. CERS does not make separate investments of assets and benefit obligations by individual employers. Ohio County Water District contributes less than 1% of the contributions made to CERS by all employers.

Funding Policy

Employees covered under CERS are required to contribute 5.0% of their salary through payroll deductions. Ohio County Water District is required to contribute an actuarially determined rate; the current rate is 18.89%. The contribution requirements of plan members and Ohio County Water District are established and may be amended by the Board of Trustees of the Kentucky Retirement Systems each biennium.

Annual Pension Cost

Covered payroll for the year ended December 31, 2013, 2012 and 2011 was \$720,653, \$697,286, and \$785,116, respectively. The total payroll for the years equalled \$781,363, \$735,503, and \$851,114 respectively. The contribution requirements for the year ended December 31, 2013 was \$176,723, which consists of \$138,878 from the Ohio County Water District and \$37,845 from the employees.

Ohio County Water District current year annual pension cost was equal to the District's required and actual contribution. Participating employers are required to contribute at an actuarial determined rate. Per Kentucky Revised Statute Section 61.565 (3), normal contribution and past service contribution rates shall be determined by the Commission on the basis of an annual valuation last preceding the July 1 of a new biennium. The Commission 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Commission.

The obligation for pension benefits under CERS is solely the responsibility of the Commonwealth and not the Ohio County Water District.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the CERS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among CERS and employers. The CERS does not make separate measurements of assets and pension benefit obligation for individual employers.

Additional information and ten-year historical trend information can be obtained from the separately issued Kentucky Retirement System Financial Report. That report may be obtained by writing Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by telephone (502) 564-4646.

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 5- CONSTRUCTION PAYABLE**

Construction Payable as of December 31, 2013 equalled \$7,601 which is significantly less than previous years due to the completion of the new water treatment plant.

**NOTE 6- LONG TERM DEBT**

The long-term debt at December 31, 2013, consisted of the following:

**(a) Loan Payable Kentucky Infrastructure Authority (KIA):**

In 2004 the Water District entered into a new agreement with the Authority amending the previous assistance agreement dated September 1, 1993. The new agreement resulted in debt reduction of over \$1,200,000 and provides for a completely new debt funding schedule and annual debt service requirement for the remaining debt. The interest rates include a servicing fee and approximates 5.4% per year.

The final payment of \$1,027,500 is due June 2014, and is to be provided by the Debt Service Reserve Fund KIA. (See Note 2, D). These payments will reduce the remaining annual debt requirement of the district for the above period to \$136,977.

**(b) Loan Payable Kentucky Infrastructure Authority (KIA) WTP:**

In 2011 the Water District began drawing loan proceeds from KIA for the construction of the new water treatment plant. The amount, not to exceed \$5,000,000, was completed for \$3,742,957. Repayment of the loan shall commence after the project is completed and will require semi annual payments on the dates established by the Schedule of Payments. The loan will bear an interest rate of 1% and an administrative fee of .25% over a term of 20 years.

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

A schedule of the principal due on the loan at December 31, 2013 is as follows:

2014	193,066
2015	195,002
2016	196,957
2017	198,931
2018	200,925
2019-2023	1,035,248
2024-2028	1,088,191
2029-2033	<u>679,449</u>
	3,787,769
Less Current Portion	<u>(193,066)</u>
Long-Term Portion	<u>3,594,703</u>

A schedule of the principal due on all loans at December 31, 2013 is as follows:

	KIA Loan	KIA Loan F08-08	Total
2014	1,027,500	193,066	1,220,566
2015		195,002	195,002
2016		196,957	196,957
2017		198,931	198,931
2018		200,925	200,925
2019-2023		1,035,248	1,035,248
2024-2028		1,088,191	1,088,191
2029-2033		<u>679,449</u>	<u>679,449</u>
		3,787,769	4,815,269
Less Current Portion	<u>(1,027,500)</u>	<u>(193,066)</u>	<u>(1,220,566)</u>
Long-Term Portion	<u>0</u>	<u>3,594,703</u>	<u>3,594,703</u>

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 6- LONG-TERM DEBT (CONTINUED)**

**(c) Waterworks Revenue Bonds:**

Series 2003:

The Water District issued \$1,865,000 of Waterworks Revenue Bonds Series 2003, dated November 1, 2003, to provide construction funds for Series III (2003) Construction Project for improvements to the water distribution system. The bonds are fully registered and insured as to principal and interest. Interest is payable semi-annually on February 1 and August 1 of each year commencing February 1, 2004. Principal is payable annually on August 1.

Series A&B

The Water District issued \$8,200,000 of Waterworks Revenue Bonds to provide construction funds for the new water treatment plant. The total amount of bonds issued are made up of two separate Series of bonds, Series A \$7,000,000 and Series B \$1,200,000. payments are due January 1st of each year for a term of 40 years. Both Bonds bare an interest rate of 4.125%. The Bonds are fully registered and insured as to the principal and interest.

A schedule of the principal due on the bonds at December 31, 2013 is as follows:

	<u>Series 2003</u>	<u>Series A</u>	<u>Series B</u>	<u>Total</u>
2014	90,000	82,500	14,000	186,500
2015	95,000	86,000	14,500	195,500
2016	100,000	89,500	15,500	205,000
2017	100,000	93,000	16,000	209,000
2018	105,000	97,000	16,500	218,580
2019-2023	600,000	548,000	94,500	1,242,500
2024-2028	0	671,000	115,000	786,000
2029-2033	0	822,000	141,000	963,000
2034-2038	0	1,005,500	173,000	1,178,500
2039-2043	0	1,230,500	211,000	1,441,500
2044-2048	0	1,506,500	258,000	1,764,500
2049-2050	0	<u>689,500</u>	<u>117,500</u>	<u>807,000</u>
	1,090,000	6,921,000	1,186,500	9,197,500
Less Current Portion	<u>(90,000)</u>	<u>(82,500)</u>	<u>(14,000)</u>	<u>(186,500)</u>
Long-Term Portion	<u>1,000,000</u>	<u>6,838,500</u>	<u>1,172,500</u>	<u>9,011,000</u>

Series 2003:

Optional Redemption:

The 2003 Series Bonds maturing on and after August 1, 2014, are subject to redemption, in whole or in part in any order of their maturities, at any time by the District prior to their stated maturities, on any date falling on or after August 1, 2013, (less than all Bonds of a single maturity to be selected in such manner as the Registrar may determine) at par plus accrued interest to the date of redemption.

Mandatory Redemption:

The Series 2003 Bonds are subject to mandatory redemption by the District prior to maturity. In the normal order of maturities, by lot within the respective maturities, in such manner as the Registrar may determine, at a redemption price of 100% of principal amount thereof, plus interest accrued on the redemption date on August 1, in the years and in the principal amounts as follows:

Bonds maturing on August 1, 2023: 2021, \$120,000; 2022, \$125,000; 2023 \$130,000.



**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 6 -LONG-TERM DEBT (CONTINUED)**

All long-term (loans and bonds) are secured solely by a pledge of and payable from the gross revenues derived from the operations of the District. Each obligation ranks on a parity basis as to security and source of payment with the other obligations.

**Annual Debt Service Requirements:**

The annual requirements to amortize the total long-term debt as of December 31, 2013, including interest payments are as follows:

Year Ended <u>Dec 31</u>	KIA		Revenue <u>Bonds</u>	USDA Bonds		<u>Total</u>
	<u>Loan</u>	<u>Loan-WTP</u>		<u>Series A</u>	<u>Series B</u>	
2014	1,083,499	230,463	136,862	367,992	62,944	1,881,690
2015	0	230,463	138,443	368,089	62,866	799,861
2016	0	230,463	139,738	368,041	63,268	801,510
2017	0	230,463	135,737	368,849	63,129	798,178
2018	0	230,463	136,638	368,013	62,969	798,083
2019-2023	0	1,152,313	685,064	1,839,663	315,953	3,992,993
2024-2028	0	1,152,313	0	1,839,945	315,374	3,307,632
2029-2033	0	691,388	0	1,840,569	315,573	2,847,530
2034-2038	0	0	0	1,839,989	315,954	2,155,943
2039-2043	0	0	0	1,839,827	315,242	2,155,069
2044-2048	0	0	0	1,840,132	315,030	2,155,162
2049-2050	<u>0</u>	<u>0</u>	<u>0</u>	<u>732,380</u>	<u>124,802</u>	<u>857,182</u>
	1,083,499	<u>4,148,329</u> (2)	<u>1,372,482</u> (3)	<u>13,613,489</u>	<u>2,333,104</u> (4)	<u>22,550,903</u>
	<u>(946,522)</u> (1)					
	<u>136,977</u>					

(1) \$946,522 is to be provided from funds of the Debt Service Reserve Fund KIA (See Note 2, d).

(2) Based on interest and principal payments due 6/1 and 12/1.

(3) Based on interest payments due 2/1 and 8/1 and principal payments due 8/1.

(4) Based on interest payments due 1/1 and 7/1 and principle payments due 1/1.

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 6-LONG-TERM DEBT (CONTINUED)**

(e) Compensated Absences totaled \$48,138. Of that amount 15% or \$7,221 has been estimated as a current liability and the balance of \$40,917 is reflected as a long term liability.

**NOTE 7- CASH AND INVESTMENTS**

Cash and Investments:

Under Kentucky Revised Statute 66.480 the Ohio County Water District is allowed to invest in obligations of the U.S. Treasury and U.S agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national banks.

The Ohio County Water District deposits and investments at December 31, 2013 were covered by federal depository insurance or by collateral held by the custodial banks. The book balance of the Ohio County Water District's deposits was \$1,728,237 and the bank balance were \$1,735,399. This does not include petty cash of \$900.

**NOTE 8-CUSTODIAL CREDIT RISKS-DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the Ohio County Water District's deposits may not be returned to it. The Ohio County Water District does not have a deposit policy for custodial credit risk. As of December 31, 2013, \$1,235,399 of the Ohio County Water District's bank balance of \$1,735,399 was exposed to custodial credit risk, detailed as follows:

Uninsured, however, collateral is held by pledging bank	\$1,235,399
---------------------------------------------------------	-------------

**NOTE 9 - RISK MANAGEMENT**

The Ohio County Water District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the Ohio County Water District also carries commercial insurance for all other risks of loss such as worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 10- LOSS ON ABANDONED PROPERTY**

As a result of the completion of the new water treatment plant certain property has been removed from operations and deemed worthless. The resulting impairments of assets value is reflected on the statement of revenues and expenses, other expenses as a loss on abandoned property of \$16,288, which represents the undepreciated cost of the identified assets.

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 11- MAJOR CONSTRUCTION PROJECTS**

In June, 1995, a hydraulic analysis of the District was completed pursuant to an order issued by the Public Service Commission (PSC). Numerous deficiencies throughout the system were identified. As a result, the District's Commission approved a long-range plan to construct needed improvements to the water system. The total cost of the proposed construction is approximately \$10,000,000 to be done in three series.

**Series I (1998) Construction Project:**

On January 6, 1998, the District submitted an application to the PSC for approval of the Series I Construction Project and the approval to issue revenue bonds in the amount of \$4,000,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. On August 19, 1998, the PSC approved the application. The Series I Construction Project was substantially completed in 1999.

The Series I Construction Project consisted of approximately 44 miles of distribution mains (approximately 14 miles in unserved areas of the District), two 500,000-gallon storage tanks, tie-in to the Perdue Farms, Inc. water treatment plant, pumping and water treatment equipment, an office at Perdue Farms, Inc., and radio telemetry equipment for monitoring and controlling the system. Pursuant to an agreement dated August 13, 1998, the Ohio County Fiscal Court assigned its contract rights to 1,000,000 gallons of water per day from Perdue Farms, Inc. to the Ohio County Water District.

**Series II (2000) Construction Project:**

On April 12, 2000, the District submitted an application to the PSC for approval of the Series II Construction Project and the approval to issue revenue bonds in the amount of \$4,035,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. The project was approved by the PSC on July 14, 2000. The construction project was substantially completed in 2002.

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 11- MAJOR CONSTRUCTION PROJECTS-Continued**

The Series II Construction Project consists of approximately 25 miles of distribution mains, an additional 500,000-gallon storage tank, and radio telemetry to the new tank. The distribution mains will extend mains into unserved areas and is designed to reinforce the existing system and eliminate deficiencies.

Series III (2003) Construction Project:

On April 7, 2003, the District submitted an application to the PSC for approval of the Series III Construction Project and the approval to issue revenue bonds in the amount of \$1,890,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. The project was approved by the PSC on May 15, 2003.

The series III Construction Project consists of approximately 34 miles of water mains in Ohio and Daviess Counties that will provide service to approximately 65 new customers and enhance the quality and reliability of service to approximately 248 customers. The project was substantially completed in 2004.

Fordsville Water Main:

On January 27, 2003, the Ohio County Water District signed a Contract for Water Service with the City of Fordsville, a municipal corporation of the Sixth Class, whereby the City agrees to purchase from the Water District, upon connection of the Water District water main line to the Fordsville Water System, the City's total water requirements to meet the demands of all of the City's water customers, and the Water District agrees to furnish and sell to Fordsville treated water necessary to satisfy the City's needs at a wholesale rate.

In order to supply the City of Fordsville, a water main, approximately 8.5 miles, was constructed to connect the City to the Water District's existing distribution system. The construction completed in 2004 was financed with a \$500,000 Community Development Block Grant to the City of Fordville for the benefit of the Ohio County Water District, a \$241,500 Coal Severance Grant and approximately \$58,500 provided by the Water District.

**OHIO COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 11- MAJOR CONSTRUCTION PROJECTS-CONTINUED**

**Purchase of Rockport Water System:**

On May 1, 2003, the Water District entered into a contract with the City of Rockport to purchase the City's water system assets and customers, excluding, the City's existing water plant and intake structure. The System purchased consists of approximately 14 miles of water mains, a 138,000-gallon standpipe, and approximately 250 customers. In consideration for the purchase of the system, the Water District assumed the liability for full payment of the outstanding indebtedness of the City to Kentucky Municipal Corporation and the Green River Area Development District. The Water District paid the loans in 2004 totaling \$345,825.00. Additional costs related to the project, including costs to connect the Water District system to the Rockport system, were approximately \$190,000. A Coal Severance Grant of \$232,260 is being used to finance the project, with the Water District providing the remaining funds. The Water District began supplying the customers on May 14, 2004.

**New Water Treatment Plant:**

In December 2006, the Water District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant is \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Total payoff of the existing bond issues equalled \$6,398,500. Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the Water District providing \$2,000,000. The Ohio County Fiscal Court has paid \$550,000 towards the amount of the project they agreed to cover (\$3,000,000) and is servicing the remainder debt of \$2,450,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bear a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of (20) years.

**Breckenridge County Project:**

In December 2006, the water district accepted assignment of a \$496,000 grant from Breckenridge county Fiscal Court, the grantee accumulated cost of the the project as of December 31, 2006 equalled \$58,790.

**New Administrative Building:**

In March 2007, the District purchased the Flener Building for \$148,000. This building has been renovated to become the administration office.



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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

To the Commissioners  
Ohio County Water 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ohio County Water District as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the Ohio County Water District's basic financial statements, and have issued our report thereon dated June 30, 2014.

### Internal Control Over Financial Reporting

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

Our consideration of the 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 the Ohio County Water 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, and is intended solely for the use of management and members of the board.

Gilbert & Gilbert CPA's

*Gilbert & Gilbert CPAs*

Glasgow, KY  
June 30, 2014