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SOUTHEAST DAVIESS COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2013 AND 2012

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Contents
December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Southeast Daviess County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Daviess County Water District, a component unit of the Daviess County Fiscal Court, Kentucky, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Southeast Daviess County Water District as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years 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 budgetary comparison information on page 15 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.

Management has omitted *Management's Discussion and Analysis* 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. Our 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*, we have also issued our report dated March 28, 2014 on our consideration of Southeast Daviess 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 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 Southeast Daviess County Water District's internal control over financial reporting and compliance.

Alexander & Company CPAs PSC

Owensboro, Kentucky
March 28, 2014

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2013 and 2012

| | 2013 | 2012 |
|-------------------------------------|----------------------|----------------------|
| Assets | | |
| CURRENT ASSETS | | |
| Cash | \$ 528,473 | \$ 228,791 |
| Accounts receivable | 292,104 | 278,157 |
| Investments | 1,886,767 | 1,865,061 |
| Interest receivable | 3,559 | 3,456 |
| Prepaid insurance | 15,343 | 12,968 |
| Inventory | 113,452 | 115,738 |
| | 2,839,698 | 2,504,171 |
| RESTRICTED FUNDS | | |
| Cash - Repair Area Extension Fund | 104,583 | 118,583 |
| Cash - Medical Reimbursement Fund | 123,374 | 70,380 |
| Investments - customer deposits | 127,795 | 122,540 |
| Investments - medical reimbursement | 200,952 | 198,578 |
| Interest receivable | 628 | 613 |
| | 557,332 | 510,694 |
| CAPITAL ASSETS | | |
| Land | 56,350 | 56,350 |
| Water plant | 10,701,691 | 10,506,766 |
| Construction in progress | 80,396 | - |
| | 10,838,437 | 10,563,116 |
| Less accumulated depreciation | (3,638,637) | (3,397,804) |
| | 7,199,800 | 7,165,312 |
| NET CAPITAL ASSETS | | |
| | 7,199,800 | 7,165,312 |
| TOTAL ASSETS | | |
| | \$ 10,596,830 | \$ 10,180,177 |

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|-----------------------------|-----------------------------|
| Liabilities and Net Assets | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 294,777 | \$ 178,137 |
| Accrued pension | 18,540 | 18,091 |
| Accrued school and sales taxes | 5,341 | 5,252 |
| Payroll taxes and withholding | 6,411 | 5,619 |
| Accrued payroll | 11,016 | 10,054 |
| Current liabilities payable from restricted assets: | | |
| Accounts payable | <u>5,094</u> | <u>8,192</u> |
| TOTAL CURRENT LIABILITIES | <u>341,179</u> | <u>225,345</u> |
| NONCURRENT LIABILITIES | | |
| Customer deposits | <u>127,795</u> | <u>122,540</u> |
| TOTAL NONCURRENT LIABILITIES | <u>127,795</u> | <u>122,540</u> |
| TOTAL LIABILITIES | <u>468,974</u> | <u>347,885</u> |
| NET POSITION | | |
| Net investment in capital assets | 7,199,800 | 7,165,312 |
| Restricted | 424,443 | 379,962 |
| Unrestricted | <u>2,503,613</u> | <u>2,287,018</u> |
| TOTAL NET POSITION | <u>10,127,856</u> | <u>9,832,292</u> |
| TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 10,596,830</u></u> | <u><u>\$ 10,180,177</u></u> |

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|------------------|------------------|
| OPERATING REVENUES | | |
| Water sales | \$ 1,953,042 | \$ 2,015,942 |
| Tap on fees | 112,695 | 106,000 |
| Miscellaneous service revenues | 94,258 | 101,194 |
| TOTAL OPERATING REVENUES | 2,159,995 | 2,223,136 |
| OPERATING EXPENSES | | |
| Advertising | 1,105 | 1,413 |
| Audit, accounting and legal | 7,400 | 7,200 |
| Bad debts | 6,732 | 5,288 |
| Board member fees | 9,000 | 9,000 |
| Depreciation | 268,694 | 252,582 |
| Education and seminars | 1,635 | 1,229 |
| Employee benefits | 152,181 | 138,274 |
| Engineering | 55 | 174 |
| Insurance | 28,570 | 26,127 |
| Materials, supplies, and repairs | 68,163 | 92,371 |
| Miscellaneous | 8,449 | 11,377 |
| Office supplies and expense | 37,691 | 35,605 |
| Payroll taxes | 25,461 | 24,703 |
| Phone and communication | 3,773 | 3,433 |
| PSC assessment | 3,779 | 3,229 |
| Rent of real estate | 5,846 | 5,802 |
| Salaries and wages | 328,320 | 319,677 |
| Transportation | 38,451 | 33,851 |
| Uniforms | 2,256 | 2,068 |
| Utilities | 45,392 | 41,156 |
| Water purchased | 908,415 | 938,367 |
| Water tests and meter service | 9,323 | 8,477 |
| TOTAL OPERATING EXPENSES | 1,960,691 | 1,961,403 |
| INCOME FROM OPERATIONS | 199,304 | 261,733 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 30,227 | 34,578 |
| Interest expense | (315) | (2,150) |
| Gain from disposal of assets | 2,890 | - |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 32,802 | 32,428 |
| INCOME BEFORE CONTRIBUTIONS | 232,106 | 294,161 |

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|--|---------------|--------------|
| CONTRIBUTED CAPITAL REVENUE | | |
| Contributions in aid of construction | \$ 63,458 | \$ 391,724 |
| TOTAL CONTRIBUTED CAPITAL REVENUE | 63,458 | 391,724 |
| CHANGE IN NET POSITION | 295,564 | 685,885 |
| NET POSITION, BEGINNING OF YEAR | 9,832,292 | 9,146,407 |
| NET POSITION, END OF YEAR | \$ 10,127,856 | \$ 9,832,292 |

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Cash Flow
For the Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 2,151,303 | \$ 2,206,633 |
| Cash payments to employees for services | (516,650) | (493,720) |
| Cash payments for goods and services | (1,059,602) | (1,272,776) |
| | 575,051 | 440,137 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of capital assets | (240,684) | (601,015) |
| Contribution in aid of construction | - | 336,387 |
| Interest paid | (315) | (2,150) |
| | (240,999) | (266,778) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Change in investments - net | (29,335) | (244,520) |
| Interest on investments | 30,109 | 35,610 |
| Proceeds from sale of property | 3,850 | - |
| | 4,624 | (208,910) |
| NET INCREASE (DECREASE) IN CASH | 338,676 | (35,551) |
| CASH AT BEGINNING OF YEAR | 417,754 | 453,305 |
| CASH AT END OF YEAR | \$ 756,430 | \$ 417,754 |

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Cash Flow
For the Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|-------------------|-------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Net income from operations | \$ 199,304 | \$ 261,733 |
| Adjustments to reconcile net income from operations to net cash provided by operating activities: | | |
| Depreciation | 268,694 | 252,582 |
| (Increase) decrease in: | | |
| Accounts receivable | (13,947) | (22,097) |
| Prepaid insurance | (2,375) | 559 |
| Inventory | 2,286 | (47,653) |
| Increase (decrease) in: | | |
| Accounts payable | 113,542 | (12,476) |
| Accrued pension | 449 | 503 |
| Accrued school and sales tax | 89 | 664 |
| Accrued payroll | 962 | 437 |
| Payroll taxes and withholding | 792 | 291 |
| Customer deposits | 5,255 | 5,594 |
| Total adjustments | 375,747 | 178,404 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 575,051 | \$ 440,137 |

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

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Southeast Daviess County Water District (District) is a component unit of the Daviess County Fiscal Court, Kentucky and, therefore, is part of the financial reporting entity of the Daviess County Fiscal Court. The District is a water utility which operates in the rural section of Southeast Daviess County, Kentucky, and its sales are primarily to residential customers.

Proprietary Fund

The District is classified as a proprietary fund type. Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are the determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary funds' activities are included on its statement of net position.

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Government Accounting Standards Board (GASB) pronouncements.

The accrual basis of accounting is used for proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Regulation

The District's utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the Commonwealth of Kentucky, Public Service Commission. The District's accounting policies recognize the financial effects of the rate making and accounting practices and policies of the Public Service Commission.

Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Operating Revenue

Operating revenue is recognized upon completion of monthly meter readings. At the end of each month, water service which has been rendered from the latest meter reading to the end of the month is unbilled.

Inventory

Inventory consists of materials and supplies and is stated at lower of cost (determined on the first-in, first-out basis) or market.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Water Plant

Water plant is stated at original cost (cost of the property to whoever first devoted it to public service). The cost of labor for additions to the water plant constructed by the District's employees is not capitalized.

Depreciation

Depreciation is provided on the basis of the estimated useful lives of assets using the straight-line method. Depreciation expense was \$ 268,694 and \$ 252,582 for the years 2013 and 2012, respectively. Estimated useful lives of major class of the water plant in service are as follows:

| | |
|--------------------------------------|-------------|
| Pumping system | 10-50 years |
| Transmission and distribution system | 30-70 years |
| General plant | 5-30 years |

Cash

For the purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Noncash financing activities for 2013 and 2012, representing water lines donated to the District, were \$ 63,458 and \$ 391,724 respectively.

Cash at year end consists of:

| | 2013 | 2012 |
|-----------------------------------|------------|------------|
| Cash | \$ 528,473 | \$ 228,791 |
| Cash – Repair Area Extension Fund | 104,583 | 118,583 |
| Cash – Medical Reimbursement Fund | 123,374 | 70,380 |
| | \$ 756,430 | \$ 417,754 |

NOTE B – CASH DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, the District's bank balances were exposed to custodial credit risk as follows:

| | 2013 | 2012 |
|---|--------------|--------------|
| Bank balances | \$ 2,972,402 | \$ 2,606,680 |
| FDIC insured | (465,324) | (709,616) |
| Uninsured and covered by collateral | (2,507,078) | (1,897,064) |
| Uninsured and not covered by collateral | \$ - | \$ - |

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2013 and 2012

NOTE B – CASH DEPOSITS AND INVESTMENTS (continued)

Investments

Investments consist of three certificates of deposit at local banks as of December 31, 2013. The first certificate of deposit has a value of \$1,799,238. This certificate pays an interest rate of 1.19% with a maturity date of November 4, 2014. The second certificate of deposit has a value of \$200,952. This certificate pays an interest rate of 1.19% with a maturity date of November 4, 2014. The third certificate of deposit is a five year stepped rate with a maturity date of September 16, 2015. This CD has a value of \$215,324 and pays a beginning interest rate of 1.00% with a .74% increase every 12 months for a maximum of four increases.

Investments consist of three certificates of deposit at local banks as of December 31, 2012. The first certificate of deposit has a value of \$1,777,985. This certificate pays an interest rate of 1.19% with a maturity date of November 4, 2014. The second certificate of deposit has a value of \$198,578. This certificate pays an interest rate of 1.19% with a maturity date of November 4, 2014. The third certificate of deposit is a five year stepped rate with a maturity date of September 16, 2015. This CD has a value of \$209,616 and pays a beginning interest rate of 1.00% with a .74% increase every 12 months for a maximum of four increases. Investments are shown on the Statement of Net Position as:

| | 2013 | 2012 |
|-------------------------------------|--------------|--------------|
| Investments | \$ 1,886,767 | \$ 1,865,061 |
| Investments – customer deposits | 127,795 | 122,540 |
| Investments – medical reimbursement | 200,952 | 198,578 |
| | \$ 2,215,514 | \$ 2,186,179 |

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United State government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District's investment policy only allows investment choices that are in compliance with the state statues. All investments held by the District are insured or collateralized with securities held by the District or by its agent in the District's name.

Concentration of Credit Risk

The District's investment policy places no limit on the amount the District may invest in any one issuer. The District's investments consist of collateralized certificate of deposits at two local banks.

NOTE C – RESTRICTED FUNDS

Cash and investments held by fiscal agents or in trusts are classified as restricted funds and liabilities to be paid by the fiscal agents or trusts are classified as current liabilities payable from restricted funds. The cash and investments are current assets and the liabilities are current liabilities.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2013 and 2012

NOTE D – CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction represent additions to the water plant through extensions of the water distribution system. These additions are funded by individual users through payments made directly to the District or to independent contractors. Contributions to the water distribution system amounted to \$ 63,458 for 2013 and \$ 391,724 for 2012.

NOTE E – PENSION PLAN

The District has a money purchase pension plan covering substantially all employees. The District's policy is to fund pension cost accrued. Pension expense was \$ 35,838 for 2013 and \$ 33,222 for 2012.

NOTE F – INCOME TAX STATUS

The District is exempt from federal and state income taxes and, accordingly, no provision for such taxes has been made.

NOTE G – CAPITAL ASSETS

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

| | Balance January 1, 2013 | Additions | Deletions | Balance December 31, 2013 |
|---------------------------------------|-------------------------------|------------------|------------------|---------------------------------|
| Capital assets not depreciated: | | | | |
| Land | \$ 56,350 | \$ - | \$ - | \$ 56,350 |
| Construction in progress | - | 80,396 | - | 80,396 |
| Total capital assets not depreciated | <u>56,350</u> | <u>80,396</u> | <u>-</u> | <u>136,746</u> |
| Capital assets depreciated: | | | | |
| Buildings | 144,240 | - | - | 144,240 |
| Pumping stations | 884,377 | 10,500 | - | 894,877 |
| Equipment | 234,290 | 9,423 | 23,868 | 219,845 |
| Tanks, lines, meters and hydrants | 9,243,859 | 218,682 | 19,812 | 9,442,729 |
| Total capital assets depreciated | <u>10,506,766</u> | <u>238,605</u> | <u>43,680</u> | <u>10,701,691</u> |
| Less accumulated depreciation: | | | | |
| Buildings | 96,167 | 6,841 | - | 103,008 |
| Pumping stations | 289,776 | 21,747 | - | 311,523 |
| Equipment | 156,742 | 17,832 | 22,908 | 151,666 |
| Tanks, lines, meters and hydrants | 2,855,119 | 222,274 | 4,953 | 3,072,440 |
| Total accumulated depreciation | <u>3,397,804</u> | <u>268,694</u> | <u>27,861</u> | <u>3,638,637</u> |
| Total capital assets depreciated, net | <u>7,108,962</u> | <u>(30,089)</u> | <u>15,819</u> | <u>7,063,054</u> |
| Total capital assets, net | <u>\$ 7,165,312</u> | <u>\$ 50,307</u> | <u>\$ 15,819</u> | <u>\$ 7,199,800</u> |

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2013 and 2012

NOTE G – CAPITAL ASSETS (continued)

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

| | Balance January 1, 2012 | Additions | Deletions | Balance December 31, 2012 |
|---------------------------------------|-------------------------------|-------------------|-------------------|---------------------------------|
| Capital assets not depreciated: | | | | |
| Land | \$ 56,350 | \$ - | \$ - | \$ 56,350 |
| Construction in progress | 38,040 | 78,173 | 116,213 | - |
| Total capital assets not depreciated | <u>94,390</u> | <u>78,173</u> | <u>116,213</u> | <u>56,350</u> |
| Capital assets depreciated: | | | | |
| Buildings | 144,240 | - | - | 144,240 |
| Pumping stations | 869,454 | 14,923 | - | 884,377 |
| Equipment | 225,936 | 20,692 | 12,338 | 234,290 |
| Tanks, lines, meters and hydrants | 8,594,957 | 668,646 | 19,744 | 9,243,859 |
| Total capital assets depreciated | <u>9,834,587</u> | <u>704,261</u> | <u>32,082</u> | <u>10,506,766</u> |
| Less accumulated depreciation: | | | | |
| Buildings | 89,326 | 6,841 | - | 96,167 |
| Pumping stations | 270,022 | 19,754 | - | 289,776 |
| Equipment | 152,030 | 17,050 | 12,338 | 156,742 |
| Tanks, lines, meters and hydrants | 2,656,057 | 208,937 | 9,875 | 2,855,119 |
| Total accumulated depreciation | <u>3,167,435</u> | <u>252,582</u> | <u>22,213</u> | <u>3,397,804</u> |
| Total capital assets depreciated, net | <u>6,667,152</u> | <u>451,679</u> | <u>9,869</u> | <u>7,108,962</u> |
| Total capital assets, net | <u>\$ 6,761,542</u> | <u>\$ 529,852</u> | <u>\$ 126,082</u> | <u>\$ 7,165,312</u> |

NOTE H – OPERATING AND ADMINISTRATION EXPENSES

The District shares office space and personnel with the West Daviess County Water District. Administrative expenses and operating salaries and wages are allocated between the two water districts based upon management's estimated usage. Currently 55% of those expenses are allocated to the District.

NOTE I – LEASING ARRANGEMENTS

The District conducts its operations from facilities which are constructed upon land leased for a period of ten years commencing March 1, 1982. The lease provides that the lessee shall have the right to extend this lease for additional five-year periods. Unless notice is given to cancel this lease sixty (60) days before the end of the original period or any extension thereof, then such extension shall be automatic.

In the event of one or more extensions, the rental shall be increased during such extensions by an amount equal to 10% of the rent set in the preceding period. The District renewed the option to extend the lease in February, 2012.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2013 and 2012

NOTE I – LEASING ARRANGEMENTS (continued)

The following is a schedule of future minimum rental payments required under the above lease as of December 31, 2013.

| <u>Year Ended December 31</u> | <u>Amount</u> |
|-----------------------------------|------------------|
| 2014 | \$ 5,846 |
| 2015 | 5,846 |
| 2016 | 5,846 |
| 2017 | <u>487</u> |
| | <u>\$ 18,025</u> |

NOTE J – SUPPLIER

The District purchases all of its water for resale from the City Utility Commission of the City of Owensboro, Kentucky operating as Owensboro Municipal Utilities (OMU).

NOTE K – SUBSEQUENT EVENTS

The District did not have any subsequent events through March 28, 2014, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2013.

SUPPLEMENTAL INFORMATION

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Budgetary Comparison Schedule
For the Year Ended December 31, 2013

| | Budgeted Amounts | | Actual | Variance with Final Budget Favorable (Unfavorable) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| OPERATING REVENUES | <u>\$ 2,281,200</u> | <u>\$ 2,281,200</u> | <u>\$ 2,159,995</u> | <u>\$ (121,205)</u> |
| OPERATING EXPENSES | | | | |
| Operation and maintenance expense | 1,760,900 | 1,760,900 | 1,688,218 | 72,682 |
| Depreciation expense | 260,000 | 260,000 | 268,694 | (8,694) |
| Taxes other than income | 3,300 | 3,300 | 3,779 | (479) |
| TOTAL OPERATING EXPENSES | <u>2,024,200</u> | <u>2,024,200</u> | <u>1,960,691</u> | <u>63,509</u> |
| INCOME FROM OPERATIONS | <u>257,000</u> | <u>257,000</u> | <u>199,304</u> | <u>(57,696)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 25,000 | 25,000 | 30,227 | 5,227 |
| Interest expense | (2,500) | (2,500) | (315) | 2,185 |
| Gain from disposal of assets | - | - | 2,890 | 2,890 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>22,500</u> | <u>22,500</u> | <u>32,802</u> | <u>10,302</u> |
| INCOME BEFORE CONTRIBUTIONS | 279,500 | 279,500 | 232,106 | (47,394) |
| CONTRIBUTED CAPITAL REVENUE | <u>50,000</u> | <u>50,000</u> | <u>63,458</u> | <u>13,458</u> |
| CHANGE IN NET POSITION | <u>\$ 329,500</u> | <u>\$ 329,500</u> | <u>\$ 295,564</u> | <u>\$ (33,936)</u> |



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

To the Board of Commissioners
Southeast Daviess County Water District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southeast Daviess County Water District (District) as of and for the year ended December 31, 2013, and the related notes to the financial statements and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southeast Daviess 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as 13-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Daviess County Water District's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Alexander & Company CPAs PSC

Owensboro, Kentucky
March 28, 2014

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2013

SUMMARY OF AUDITORS' RESULTS

1. An unqualified opinion was issued on the financial statements for the year ended December 31, 2013.
2. One significant deficiency in internal control was disclosed during the audit.
3. The audit did not disclose any noncompliance which was material to the financial statements.

FINDINGS – FINANCIAL STATEMENT AUDIT

13-1 Significant Deficiency:

Segregation of Duties: Segregation of duties is normally difficult to accomplish within a small organization. The small size of the District's bookkeeping staff limits that segregation. Improvements continue to be made in this area within the last year. Ultimately management is responsible for the internal control structure and must weigh any cost for improvement in regards to cost vs. benefit.

District's Response: Due to the limited number of personnel, management believes that an adequate segregation of duties is not achievable and that the costs of correcting the weakness would exceed the benefits that would be derived.