

WEBSTER COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

WEBSTER COUNTY WATER DISTRICT

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	6
Statement of Activities	7
Fund Financial Statements:	
Proprietary Funds:	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Fund Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11-15
Other Supplementary Information	
Administrative Personnel and Commissioners	16
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	17-18



Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY 42450

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Webster County Water District
Dixon, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Webster 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 District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Webster County Water District, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated February 28, 2014, on my consideration of the Webster County Water District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Webster County Water District's internal control over financial reporting and compliance.



Providence, Kentucky
February 28, 2014

**WEBSTER COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

As management of the Webster County Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

Financial Highlights

- Installed 4,110' of 3" PVC waterline on Wilkerson Road.
- Extended 1,100' of 3" PVC waterline on Letcher-Melton Road.
- Substituted different chemicals at Water Treatment Plant to lower disinfection by-products and to save on chemical costs.
- Began replacing SCADA (Supervisory Control and Data Acquisition) software that is over 14 years old.
- Started utilizing a 1400 g.p.m. pump at the Water Treatment Plant with a variable speed drive to save on electric costs instead of using two 700 g.p.m. pumps. This will also increase the useful life of these three high service pumps.
- Replaced all but one of the Wallace & Terrain V Notch CL2 feed systems that are over 14 years old.
- Obtained a G.P.S. unit, software, and computer to enhance our system. Received training to operate efficiently.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and, 3) notes to the financial statements. This report also contains other supplementary information to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objections. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories – governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District does not maintain governmental funds.

Proprietary Fund – The District maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for its water operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 7-9 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Net position may service over time as a useful indicator of the government's financial position. In the case of the Webster County Water District, assets exceeded liabilities by \$13,482,561 as of December 31, 2013.

The District's net position of \$13,482,561 reflect its investment in capital assets (e.g. land, buildings, equipment and infrastructure) less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position for the Period Ending December 31, 2013

	Business-type Activities	Total
Current assets	\$ 420,094	\$ 420,094
Noncurrent assets	14,290,815	14,290,815
Total assets	14,710,909	14,710,909
Current liabilities	320,023	320,023
Noncurrent liabilities	908,325	908,325
Total liabilities	1,228,348	1,228,348
Contributed capital	12,120,348	12,120,348
Unrestricted	1,362,213	1,362,213
Total net position	<u>\$ 13,482,561</u>	<u>\$ 13,482,561</u>

The District reported positive balances in Net Position for business-type activities.

Capital Assets

The Webster County Water District's investment in capital assets for its business-type activities as of December 31, 2013, amounts to (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, equipment, vehicles, and infrastructure. The summary of capital assets is as follows:

	Balances <u>January 1</u>	Additions	Retirements	Balances <u>December 31</u>
Business-type Activities:				
Land and land rights	\$ 122,021	\$ -	\$ -	\$ 122,021
Structures and improvements	7,345,601	11,850	-	7,357,451
Supply mains	368,667	-	-	368,667
Pumping equipment	125,453	58,209	-	183,662
Water treatment equipment	102,507	-	-	102,507
Distribution reservoirs	2,449,056	24,012	-	2,473,068
Transmission mains	10,088,713	22,956	-	10,111,669
Meters and installation	969,520	17,692	-	987,212
Hydrants	59,756	-	-	59,756
Other plant equipment	24,350	-	-	24,350
Office equipment	142,080	16,678	-	158,758
Transportation equipment	164,881	19,382	-	184,263
Tools and shop equipment	18,470	-	-	18,470
Lab equipment	13,394	-	-	13,394
Power operated equipment	29,879	-	-	29,879
Communications equipment	24,044	18,740	-	42,784
Miscellaneous equipment	3,214	-	-	3,214
	<u>22,051,606</u>	<u>189,519</u>	-	<u>22,241,125</u>
Total capital assets				
Less accumulated depreciation	<u>(8,785,409)</u>	<u>(530,495)</u>	-	<u>(9,315,904)</u>
Business-type activities:				
Capital assets, net	<u>\$ 13,266,197</u>	<u>\$ (340,976)</u>	<u>\$ -</u>	<u>\$ 12,925,221</u>

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Webster County Water District, Attn: Paul Lashbrooke, Superintendent, at P. O. Box 320, Dixon, Kentucky, call 270-639-9010.

**WEBSTER COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	<u>Business-Type Activities Enterprise Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 150,604
Accounts receivable	158,442
Inventories	92,460
Prepaid expenses	<u>18,588</u>
Total current assets	<u>420,094</u>
Noncurrent Assets	
Restricted cash	1,355,055
Capital assets, net of depreciation	12,925,221
Unamortized bond issue costs	1,944
Deferred loss on early retirement of debt	8,510
Utility deposits	<u>85</u>
Total noncurrent assets	<u>14,290,815</u>
Total assets	<u>14,710,909</u>
Liabilities	
Current liabilities	
Accounts payable	32,971
Accrued expenses	15,579
Customer meter deposits	19,642
Current portion of bonds payable	<u>251,831</u>
Total current liabilities	<u>320,023</u>
Noncurrent liabilities	
Noncurrent portion of bonds payable	<u>908,325</u>
Total noncurrent liabilities	<u>908,325</u>
Total liabilities	<u>1,228,348</u>
Net Position	
Contributed capital	12,120,348
Retained earnings	<u>1,362,213</u>
Total net position	<u>\$ 13,482,561</u>

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

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

<u>Functions/programs</u>	Net (Expense) Revenue and Changes in Net Position						
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business-type activities							
Water	<u>(1,801,816)</u>	<u>1,805,728</u>	<u>-</u>	<u>25,669</u>	<u>-</u>	<u>29,581</u>	<u>29,581</u>
Total business-type activities	<u>(1,801,816)</u>	<u>1,805,728</u>	<u>-</u>	<u>25,669</u>	<u>-</u>	<u>29,581</u>	<u>29,581</u>
Total government	<u>\$ (1,801,816)</u>	<u>\$ 1,805,728</u>	<u>\$ -</u>	<u>\$ 25,669</u>	<u>\$ -</u>	<u>29,581</u>	<u>29,581</u>
				General Revenues			
				Interest income		3,372	3,372
				Total general revenue		<u>3,372</u>	<u>3,372</u>
				Change in net position		32,953	32,953
				Net position, beginning		13,449,608	13,449,608
				Net position, ending		<u>\$ 13,482,561</u>	<u>\$ 13,482,561</u>

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

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

	<u>Business-Type Activities Enterprise Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 150,604
Accounts receivable	158,442
Inventories	92,460
Prepaid expenses	<u>18,588</u>
Total current assets	<u>420,094</u>
Noncurrent Assets	
Restricted cash	1,355,055
Capital assets, net of depreciation	12,925,221
Unamortized bond issue costs	1,944
Deferred loss on early retirement of debt	8,510
Utility deposits	<u>85</u>
Total noncurrent assets	<u>14,290,815</u>
Total assets	<u>14,710,909</u>
Liabilities	
Current liabilities	
Accounts payable	32,971
Accrued expenses	15,579
Customer meter deposits	19,642
Current portion of bonds payable	<u>251,831</u>
Total current liabilities	<u>320,023</u>
Noncurrent liabilities	
Noncurrent portion of bonds payable	<u>908,325</u>
Total noncurrent liabilities	<u>908,325</u>
Total liabilities	<u>1,228,348</u>
Net Position	
Contributed capital	12,120,348
Retained earnings	<u>1,362,213</u>
Total net position	<u><u>\$ 13,482,561</u></u>

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

**WEBSTER COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2013**

	<u>Business-type Activities Enterprise Fund</u>
Operating Revenues:	
Charges for services	\$ 1,672,826
Other income	<u>132,902</u>
Total operating revenues	<u>1,805,728</u>
Operating expenses:	
Salaries	431,161
Depreciation	530,495
Materials, supplies and repairs	99,397
Utilities	149,347
Employee benefits	176,569
Rental of equipment	306
Transportation	40,521
Contract services	15,394
Insurance	32,180
Taxes	33,303
Chemicals	177,296
Advertising	1,791
Miscellaneous	45,981
PSC assessment	<u>3,342</u>
Total operating expenses	<u>1,737,083</u>
Operating income	<u>68,645</u>
Non-operating Revenue (Expenses):	
Interest and dividend income	3,372
Interest expense	(43,826)
Amortization of bond discounts	(3,885)
Amortization of deferred loss on early retirement debt	(17,022)
Tap fees	21,500
Contributed capital	<u>4,169</u>
Total non-operating revenues (expenses)	<u>(35,692)</u>
Change in net position	32,953
Total net position, beginning	<u>13,449,608</u>
Total net position, ending	<u>\$ 13,482,561</u>

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

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

	<u>Business-type Activities Enterprise Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 1,672,826
Payments to suppliers	(745,804)
Payments to employees	(431,161)
Other receipts (payments)	<u>132,902</u>
Net cash provided by operating activities	<u>628,763</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(189,519)
Principal paid on bonds payable	(377,682)
Interest paid on bonds payable	(43,826)
Capital contributions	<u>25,669</u>
Net cash (used) by capital and related financing activities	<u>(585,358)</u>
Cash Flows from Investing Activities	
Interest and dividend income	<u>3,372</u>
Net increase in cash and cash equivalents	46,777
Balances, beginning of year	<u>1,458,882</u>
Balances, ending of year	<u><u>\$ 1,505,659</u></u>
Reconciliation of operating income to net cash provided by (used in) operating activities	
Operating income	\$ 68,645
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation	530,495
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	30,378
(Increase) decrease in inventory	3,342
(Increase) decrease in prepaid expenses	(1,219)
Increase (decrease) in accounts payable	7,913
Increase (decrease) in accrued expenses	(13,846)
Increase (decrease) in customer meter deposits	<u>3,055</u>
Net cash provided by operating activities	<u><u>\$ 628,763</u></u>

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

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

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity.

The Webster County Water District (the "District") was created on December 13, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located in Dixon, Kentucky. The District is comprised of five commissioners who are nominated and approved by the Webster County Fiscal Court. The District is a water utility which operates in the rural section of Webster County, Kentucky, and its sales are primarily to residential customers.

B. Basis of Presentation.

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

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

Fund Financial Statements:

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. Operating expenses for the proprietary funds include the costs of operational and contracted services, revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made regardless of the measurement focus applied.

The government-wide statements and the fund financial statements for the proprietary funds are reported using the economic resources measurement focus and the accrual basis

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

D. **Regulation**

The Water 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. Webster County Water District's accounting policies recognize the financial affects of the rate making and accounting practices and policies of the Public Service Commission.

E. **Cash and Investments**

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

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

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

F. **Inventory**

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

G. **Capital Assets**

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

Note 2. Capital Assets

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

	Balances January 1	Additions	Retirements	Balances December 31
Business-type Activities:				
Land and land rights	\$ 122,021	\$ -	\$ -	\$ 122,021
Structures and improvements	7,345,601	11,850	-	7,357,451
Supply mains	368,667	-	-	368,667
Pumping equipment	125,453	58,209	-	183,662
Water treatment equipment	102,507	-	-	102,507
Distribution reservoirs	2,449,056	24,012	-	2,473,068
Transmission mains	10,088,713	22,956	-	10,111,669
Meters and installation	969,520	17,692	-	987,212
Hydrants	59,756	-	-	59,756
Other plant equipment	24,350	-	-	24,350
Office equipment	142,080	16,678	-	158,758
Transportation equipment	164,881	19,382	-	184,263
Tools and shop equipment	18,470	-	-	18,470
Lab equipment	13,394	-	-	13,394
Power operated equipment	29,879	-	-	29,879
Communications equipment	24,044	18,740	-	42,784
Miscellaneous equipment	3,214	-	-	3,214
Total capital assets	22,051,606	189,519	-	22,241,125
Less accumulated depreciation	(8,785,409)	(530,495)	-	(9,315,904)
Business-type Activities:				
Capital assets, net	<u>\$ 13,266,197</u>	<u>\$ (340,976)</u>	<u>\$ -</u>	<u>\$ 12,925,221</u>

Note 3. Noncurrent Liabilities

At December 31, 2013, noncurrent liabilities consisted of the following:

	<u>Business-type</u>
Kentucky Infrastructure Authority (KIA) Fund B, Infrastructure Revolving Fund, 1995 J loan, dated January 15, 1997. Interest is payable semi-annually on June 1 and December 1. The interest rate over the term of maturity is 2.3%. The loan is due in annual installments through the year 2016.	\$ 115,249
Kentucky Infrastructure Authority (KIA) Fund B, Infrastructure Revolving Fund, C-98-03 loan, dated January 13, 2000. Interest is payable semi-annually on June 1 and December 1. The interest rate over the term of maturity is 3%. The loan term is 30 years with a final maturity in 2032.	909,907

Kentucky Rural Water Finance Corporation, Public Projects Refunding Revenue Bonds, Series 2002B, dated October 30, 2002. Interest is payable semi-annually on January 1 and July 1. The interest rate varies over the term of the maturity from 2.62% to 4.37%. The bonds mature in annual installments on July 1 through the year 2014.

	<u>135,000</u>
	1,160,156
Less amount due within one year	<u>251,831</u>
Amount due in more than one year	<u>\$ 908,325</u>

The following represents future bond and long-term not maturities:

<u>Year ending December 31</u>	<u>Amount</u>
2014	\$ 251,831
2015	128,706
2016	132,324
2017	95,837
2018	86,698
Thereafter	<u>464,760</u>
	<u>\$ 1,160,156</u>

Note 4. Contributions in Aid of Construction

	<u>Local Government</u>	<u>Federal and State</u>	<u>Customers</u>	<u>Total</u>
Balances, December 31, 2012	\$ 1,569,738	\$ 9,141,080	\$ 1,383,861	\$ 12,094,679
Contributed Capital	<u>-</u>	<u>-</u>	<u>25,669</u>	<u>25,669</u>
Balance, December 31, 2013	<u>1,569,738</u>	<u>9,141,080</u>	<u>1,409,530</u>	<u>12,120,348</u>

Note 5. Employee Retirement System

The Water District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for

retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The District's contribution rate for nonhazardous employees was 18.89 percent.

The district's contribution for 2011 was \$63,490; and 2012 was \$60,082; and 2013 was \$77,873.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Income Tax Statuses

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

Note 7. Contingencies

There are several litigation proceedings in which the District is involved. In the opinion of counsel, any liability which the District may have under these proceedings is covered by insurance. The results of litigation proceedings cannot be predicted with certainty, however, in the opinion of the District's general counsel, the District does not have a potential liability in connection with these other proceedings which would have an adverse material effect on the financial position of the District.

Note 8. Risk Management

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

SUPPLEMENTARY INFORMATION

**WEBSTER COUNTY WATER DISTRICT
ADMINISTRATIVE PERSONNEL AND COMMISSIONERS
DECEMBER 31, 2013**

ADMINISTRATIVE PERSONNEL

Paul D. Lashbrooke, Superintendent
Robert Schindley, Assistant Superintendent
Roger D. Brooks, Plant Operator
Myra Bell Scott, Accounting Assistant

COMMISSIONERS

Jimmy L. Frederick, Chairman
Tommy Robertson
Ken Hammack
Charles Buchanan
James Goff



Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY 42450

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To The Commissioners
Webster County Water District

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Webster County Water District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Webster County Water District's basic financial statements, and have issued my report thereon dated February 28, 2014.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Webster County Water District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Michael G. Curley CPA, FRC". The signature is written in a cursive style.

Providence, Kentucky
February 28, 2014