

CRAWFORD & BAXTER, P.S.C.

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June 16, 2014

RECEIVED

JUN 17 2014

Mr. Jeff Derouen, Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

PUBLIC SERVICE
COMMISSION

RE: Carroll County Water District #1 - Case No. 2014-00174

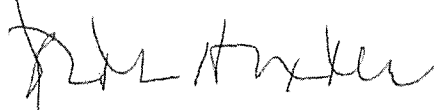
Dear Mr. Derouen:

Please find enclosed the original and eleven (11) copies of "Carroll Carroll Water District's Responses to Commission Staff's Request for Information". Please stamp date one copy of the Application and return to my office in the enclosed stamped self-addressed envelope.

Please contact me at (502) 732-6688 or Terry Roach at (502) 732-7055 with any questions regarding this filing. Thank you for your courtesy in this matter.

Sincerely,

CRAWFORD & BAXTER, P.S.C.



Ruth H. Baxter
Counsel for Carroll Carroll Water District #1

RHB/dmp

Enclosures

cc: Mr. Obe Cox, CCWD
Mr. Terry Roach, Carrollton Utilities

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
JUN 17 2014
PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION FOR APPROVAL OF)
INTERLOCAL AGREEMENTS,)
AND) CASE 2014-00174
FOR AUTHORITY TO INCUR DEBT)

CARROLL COUNTY WATER DISTRICT #1'S
RESPONSES TO COMMISSION STAFF'S
REQUEST FOR INFORMATION

** ** * * * * *

Comes now the Carroll County Water District #1 ("CCWD"), and for its Responses to the Commission Staff's Request for Information, states as follows:

1. Statement of original cost of applicant's property and the cost to the applicant, if different.

RESPONSE: Attached as Exhibit "1" is the list of land, building and improvements owned by CCWD with its cost basis. There is no different cost to the applicant.

2. Copies of all trust deeds or mortgages. If previously filed, state case number.

RESPONSE: None.

3. If property is to be acquired, detailed estimates by USOA account number.

RESPONSE: There is no property being acquired.

4. For a utility that had less than \$5,000,000 in gross annual revenue in the immediate past calendar year, comply with paragraph (a) of this subsection or cover operations for the twelve (12) month period contained in the utility's most recent annual report on file with the commission, and contain a statement that: 1. Material changes have not occurred since the end of

that twelve (12) month period or 2. Identifies all material changes that have occurred since the end of that twelve (12) month period.

RESPONSE: There have been no material changes in operations since the end of the twelve (12) month period ended December 31, 2013, and the reports filed with the PSC.

5. Bonds Outstanding.

RESPONSE: The following bonds are outstanding:

1.) Kentucky Rural Water Finance Corporation, Flexible Term Finance Program,

Series 2005 C;

- a.) Amount Authorized and Issued - \$829,000;
- b.) Date of Issue - October 19, 2005;
- c.) Date of Maturity - January 1, 2015;
- d.) How Secured - Water Revenues
- e.) Interest Paid in Last Fiscal Year (2013) - 4.03% - \$4,956.90;

2.) RECD Revenue Bonds of 2005 Series A;

- a.) Amount Authorized and Issued - \$592,000;
- b.) Date of Issue - February 6, 2006;
- c.) Date of Maturity - September 1, 2044;
- d.) How Secured - Water Revenues
- e.) Interest Paid in Last Fiscal Year (2013) - 4.375% - \$24,018.74;

3.) RECD Revenue Bonds of 2005 Series B;

- a.) Amount Authorized and Issued - \$319,000;
- b.) Date of Issue - February 6, 2006;
- c.) Date of Maturity - September 1, 2044;

- d.) How Secured - Water Revenues
- e.) Interest Paid in Last Fiscal Year (2013) - 4.125% - \$12,168.74;
- 4.) RECD Revenue Bonds of 2010 (Build America Bonds - Direct Payment);
 - a.) Amount Authorized and Issued - \$1,246,000;
 - b.) Date of Issue - November 11, 2010;
 - c.) Date of Maturity - September 1, 2049;
 - d.) How Secured - Water Revenues
 - e.) Interest Paid in Last Fiscal Year (2013) - 3.0% - \$36,900.00 (interest rebate \$12,353);
- 5.) Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program) Series 2012(B);
 - a.) Amount Authorized and Issued - \$3,785,000;
 - b.) Date of Issue - March 28, 2012;
 - c.) Date of Maturity - January 1, 2039;
 - d.) How Secured - Water Revenues
 - e.) Interest Paid in Last Fiscal Year (2013) - 2.2% - \$130,077.46 including \$7,914.96 service charges.

6. The following Notes are Outstanding:

RESPONSE: Kentucky Infrastructure Authority

- a.) Date of Issue - November 1, 2003;
- b.) Amount Due at December 31, 2013 - \$1,188,027.94;
- c.) Original Amount - \$1,908,662;
- d.) Date of Maturity - December 1, 2024;

- e.) How Secured - Water Revenues;
- f.) Rate of Interest - 3.0%
- g.) Interest Paid in Last Fiscal Year (2013) - \$40,808.42.
- 7. Other Indebtedness.

RESPONSE: There are no other debts outstanding.

- 8. Detailed Income Statement and Balance Sheet.

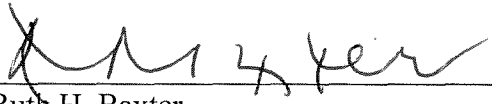
RESPONSE: The Basic Financial Statements, Supplementary Information and Independent Auditor's Reports as of December 31, 2013, and 2012, is attached hereto as Exhibit "2".

9. The May 2, 2013, letter from the Kentucky Infrastructure Authority approving the loan indicates the City of Carrollton has until May 6, 2014, to meet the conditions set forth in the letter and enter into an Assistance Agreement. A one-time extension of six months is available under certain circumstances. Provide proof that the City of Carrollton has met the conditions set forth in the letter and entered into an Assistance Agreement or proof that a six month extension has been granted.

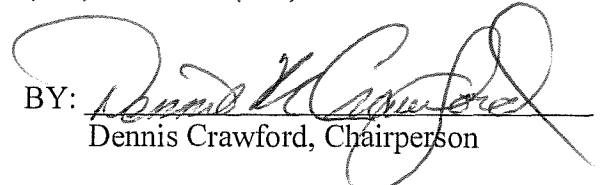
RESPONSE: The letter dated March 14, 2014, from the Kentucky Infrastructure Authority to the City of Carrollton extending the expiration date to November 6, 2014, is attached hereto as Exhibit "3".

CRAWFORD & BAXTER, P.S.C.
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Attorneys for Carroll County Water District #1

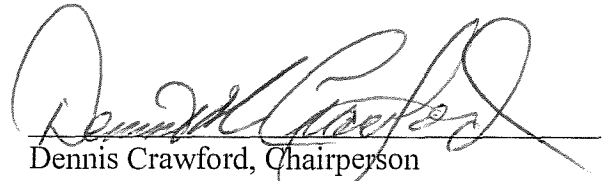
By: 
Ruth H. Baxter

CARROLL COUNTY WATER DISTRICT #1
Post Office Box 350
Ghent, Kentucky 41045
(502) 347-9500 (Direct Line)
(502) 347-9333 (Fax)

BY: 
Dennis Crawford, Chairperson

VERIFICATION

I, Dennis Crawford, Chairperson of the Carroll County Water District #1, state that the statements contained in this Response to Commission Staff's Request for Information are true to the best of my information and belief.

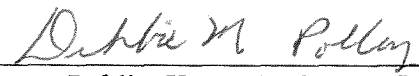

Dennis Crawford, Chairperson

STATE OF KENTUCKY)

COUNTY OF CARROLL)

Subscribed and sworn to before me by Dennis Crawford, Chairperson of the Carroll County Water District #1, on this the 16th day of June, 2014.

My commission expires: 10-13-2017

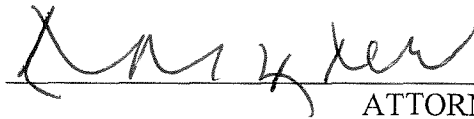

Notary Public, Kentucky State at Large

CERTIFICATE OF SERVICE

The undersigned counsel certifies that the foregoing responses have been served upon the following by first class mail, postage prepaid:

Mr. Jeff Dereoun, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

This 16 day of June, 2014.



ATTORNEY FOR
CARROLL COUNTY WATER DISTRICT #1

CARROLL COUNTY WATER DISTRICT #1

ADDITIONAL INFORMATION NEEDED FOR PSC

	<u>Acquired</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Remaining Basis</u>
<u>LAND</u>				
Lots in Ghent	1994	\$ 7,500	\$	\$ 7,500
Lot in Ghent	1997	3,000		3,000
Land - Well Site	2002	5,768		5,768
Land - Bucks Run	2003	6,200		6,200
Land - Saylor Road	2004	2,500		2,500
14.627 A Highway 47	2005	186,943		186,943
Lot Corner of US 42 and Hwy 47	2005	15,277		15,277
Easements/land Rights	various	50,628		50,628
Total		<u>\$ 277,816</u>	<u>\$</u>	<u>\$ 277,816</u>
<u>BUILDINGS & IMPROVEMENTS</u>				
Office and Maintenance Buildings	1990-2011	\$ 277,792	\$ 120,546	\$ 157,246
Storage Building	2011	40,453	2,529	37,924
Total		<u>\$ 318,245</u>	<u>\$ 123,075</u>	<u>\$ 195,170</u>
<u>DISTRIBUTION SYSTEM AND MISCELLANEOUS EQUIPMENT</u>				
	various	<u>\$ 15,300,434</u>	<u>\$ 5,487,498</u>	<u>\$ 9,812,936</u>
TOTAL		\$ 15,896,495	\$ 5,610,573	\$ 10,285,922

CARROLL COUNTY WATER DISTRICT NO. 1

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

At December 31, 2013 and 2012



**CARROLL COUNTY WATER DISTRICT NO. 1
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Carroll County Water District No. 1
Ghent, Kentucky 41045

Report on the Financial Statements

We have audited the accompanying financial statements of Carroll County Water District No. 1 as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Carroll County Water District No. 1'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 an opinion 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 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 the Carroll County Water District No. 1, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 17 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2014, on our consideration of the Carroll County Water District No. 1'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 Carroll County Water District No. 1's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 19, 2014

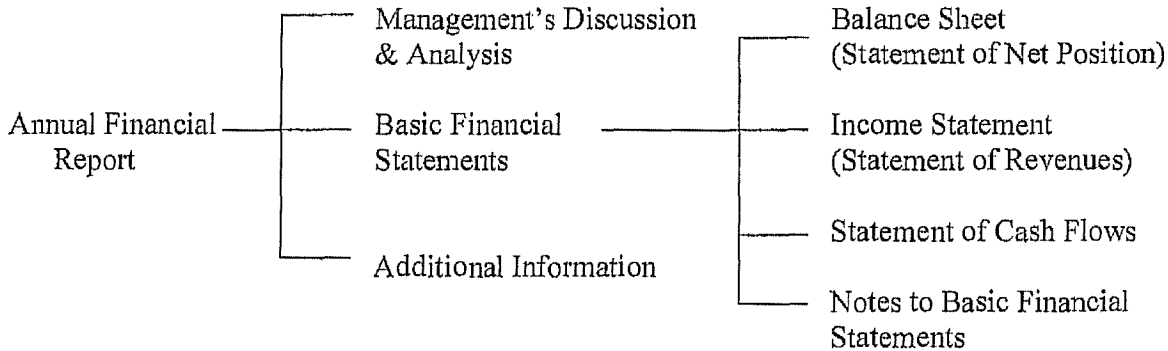


MANAGEMENT’S DISCUSSION AND ANALYSIS

This Discussion and Analysis of Carroll County Water District #1 financial performance provides an overview of the District’s financial activities for the fiscal year ending December 31, 2013. It should be read in conjunction with the District’s financial statements and supplementary information.

Financial Statements Overview

This annual financial report consists of three major parts: management’s discussion and analysis, basic financial statements, and supplementary information. Included with the financial statement are notes that explain in more detail some of the information in the financial statements. Additional to these notes is a section of supplementary information in support of the information in the financial statements. The figure below illustrates how the annual financial report is arranged.



The Balance Sheet or Statement of Net Position includes all of the District’s assets and liabilities and provides a basis for evaluating the overall health and financial flexibility of the District.

The Income Statement or the Statement of Revenues, Expenses, and Changes in Fund Net Position account for all the current year’s revenues and expenses. This statement is a ready reflection of the success of the District’s operations over the past year and shows at a glance whether or not the District has recovered all of its costs through its water rates and other charges.

The Statement of Cash Flows primary purpose is to provide information about the District’s cash receipts, payments, and net changes in cash resulting from its operations, investing activities and financing activities and provides further information on the sources and uses of cash and the changes in the cash balances during the operating year.

The implementation of GASB 65 required the District to retroactively eliminate any carrying amounts of bond issuance costs and the related amortization thereof. Additionally, other items that had previously been reported as assets or liabilities were reclassified as deferred inflows or deferred outflows of resources. The fiscal 2012 financial statements have been restated as required. Accordingly, the MD&A for this audit will deal with financial statements beginning in year 2012.

Financial Highlights

- Additional assets acquired during the year were offset by asset depreciation and total assets remained virtually unchanged at \$12,933,182. These totals include transactions related to the large AMR meter warranty exchange (older meters exchanged for brand new meters at no cost to the district).
- Operating Revenues decreased slightly by \$19,131 or 1.1% from \$1,809,751 in 2012 to \$1,790,620 in 2013. More water was accounted for throughout billing in 2013 and production was less, however, the collection of monies from the customers decreased, prompting the decrease in revenue, which has been netted with bad debt expense for the year. Water sales were down by \$7,441 and miscellaneous income was down by \$13,537.
- Operating Expenses were down \$32,975 in 2013 when compared to 2012. This decrease is attributable to decreased cost of administrative salaries and reduction in expenditures for professional services such as rehabilitation of wells.
- Net Income before Capital Contributions for 2013 as compared to the previous year was up \$296,874. This is primarily due to lower interest costs in 2013 as compared to 2012, and the \$132,689 bond insurance costs incurred in 2012, when the District refinanced a significant portion of its long term debt. \$85,306.00 in meter write-offs occurred in 2012 whereas \$23,632 warranty revenue was recognized in 2013.

Balance Sheet, Statement of Net Position

Changes in Net Position in 2013 are attributed to the increase in cash restricted for debt service and increased inventory, and principal payments made on long term debt.

	2013	2012	Difference 12-13	%
Utility Plant	\$10,297,046	\$10,657,406	(360,360)	3.4
Current Assets	\$1,684,882	\$ 1,574,505	110,377	7.0
Other Non-Current Assets	\$ 951,254	\$ 762,005	189,249	24.8

Long Term Liabilities at year-end 2013 are down due to retirement of debt per amortization schedules. Current liabilities show a 18.1% decrease compared to year-end 2012. The increase in accounts payable

Carroll County Water District #1
December 31, 2013

is attributable to a change in billing procedure by one of the power utilities that resulted in timing differences. Other changes are due to reduction in the current portion of bonds payable attributable to the 2005 C issue.

	2013	2012	Difference 12-13	%
Long Term Liabilities	\$6,701,314	\$6,938,425	(237,111)	3.4
Current & Accrued Liabilities	\$403,840	\$493,214	(89,374)	18.1

Total Net Position

Total Net Position as shown below is up by \$268,054 due to several combinations of things such as outstanding debt being paid down, multiple improvements made either at no or fraction of the replacement cost and reduced labor cost.

	2013	2012	Difference 12-13	%
Total Net Position	\$5,823,285	\$ 5,555,231	268,054	4.8

Income Statement

Operating Revenues for 2013 were virtually unchanged when compared to 2012, but down slightly due to less miscellaneous income in 2013. The Special Item income/expense was \$87,282 for the year of 2013 which resulted in no change since it was a total reimbursement project costs. The work was related to relocation of water lines throughout the year with Charah, Inc. and Kentucky Department of Transportation. The Net Income for the year was up by \$227,967 due to lower interest cost and meter warranty income in 2013 versus high bond issuance and meter write-off costs in 2012.

	2013	2012	Difference (12-13)	%
Operating Revenue	\$1,790,620	\$1,809,751	(19,130)	1.1
Operating Expense	\$1,458,660	\$1,491,635	(32,975)	2.2
Net Operating Revenue	\$ 331,960	\$ 318,116	13,844	4.4
Non-Operating Expenses	\$ 202,561	\$ 485,591	(283,030)	58.3
Capital Contributions	\$ 138,655	\$ 207,562	(68,907)	33.2
Special Item	-	-	-	-
Net Income	\$ 268,054	\$ 40,087	227,967	56.9

Statement of Cash Flows

Cash from Operating Activities was up only slightly during the year at 1.5%. The increase in Cash at Year End 2013 is more than 27% due to reduced line relocation cost and lower cost associated with well maintenance and required materials.

	2013	2012	Difference (12-13)	%
Cash from Operating Activities (Net)	\$ 755,251	\$ 744,227	11,024	1.5
Cash from Non-Capital Financing Activities	\$ 46	\$(111,764)	111,810	100
Cash from Capital & Related Financing Activities	\$(509,201)	\$(439,865)	(69,336)	15.8
Cash From Investing Activities	\$ 1,230	\$ 1,661	(431)	26
Change in Cash	\$ 247,326	\$ 194,259	53,067	27.3
Cash Balance, Beginning of Year	\$1,180,259	\$ 986,000	194,259	19.7
Cash Balance, End of Year	\$1,427,585	\$1,180,259	247,326	21

Debt Administration

As of year's end 2013 the District had outstanding Bond debt of \$5,735,500, and a Note Payable of \$1,188,028 for a total of \$6,923,528 in Long Term Debt. The funds available for Debt Service in 2013 were more than sufficient to cover debt payments without pulling down cash. The Total Debt Service had a significant change due to the 2012 bond sale. The Debt Coverage Ratio for 2013 was 1.36, a level that is sufficient not only to pay debt but also allow sufficient allocation to Depreciation and other capital improvement projects.

	2013	2012	Difference (12-13)	%
Total Bonds Payable	\$5,735,500	\$5,982,000	(246,500)	4.1
Note Payable	\$1,188,028	\$1,277,961	(89,933)	7.0
Income Available for Debt Service	\$796,487	\$782,159	14,328	1.8
Total Debt Service	\$585,713	\$387,857	197,856	51
Debt Coverage	1.36	2.01	0.38	28.8

Economic Outlook

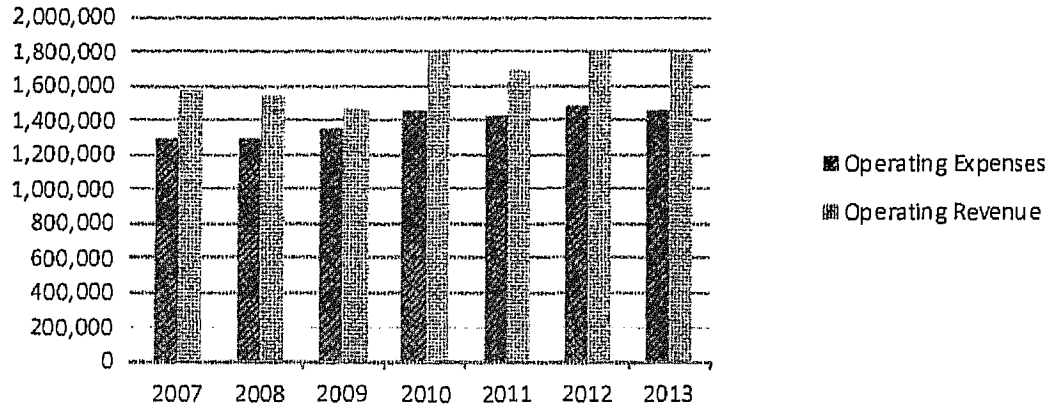
No significant growth or decline in water sales is expected in 2014. The two diagrams on the next page are offered to give a picture of the relative health of the Water District. The graph of the Operating Expenses including Depreciation versus Operating Revenue presents a view of monies remaining to cover debt after Operating Expenses have been paid. You will note the numbers for 2013 reflect a comfortable level in Revenue versus Expenses as was expected for the year. The graph titled Operating Ratio depicts Total Operation Expenses less Depreciation divided by Total Revenues and is a measure of overall efficiency of the District. Management feels that trends in this Operating Ratio reflect the health of the operation. In the healthiest operations this ratio will remain constant or reduce over time. You will note a slight decrease in this ratio for the year 2013. The facts portrayed by these two charts along with a comfortable Debt Coverage Ratio reflect a healthy District. The District is participating with Carrollton Utilities and West Carroll Water District in a Carroll County Interconnect Project and a Focus Project in the future. This will result in a new Debt Service to Carrollton Utilities of approximately \$224,685 subject to 0.75% interest rate with 25% grant. The Focus on Core Mission & Infrastructure Project will result in a small debt service of \$193,375 subject to 0.75% interest with 50% loan forgiveness.

The outlook forecast is similar even though early 2014 has brought unusual winter extremes to cause increase in maintenance costs. Also, the closure of our ongoing meter warranty exchange is near completion, where the District has been receiving a new meter in exchange for three faulty electronic heads at no cost. Eventually, the District will start replacing meters at full cost. The District has not been fully staffed therefore saving on labor cost in lieu of additional cost of distribution/plant improvements.

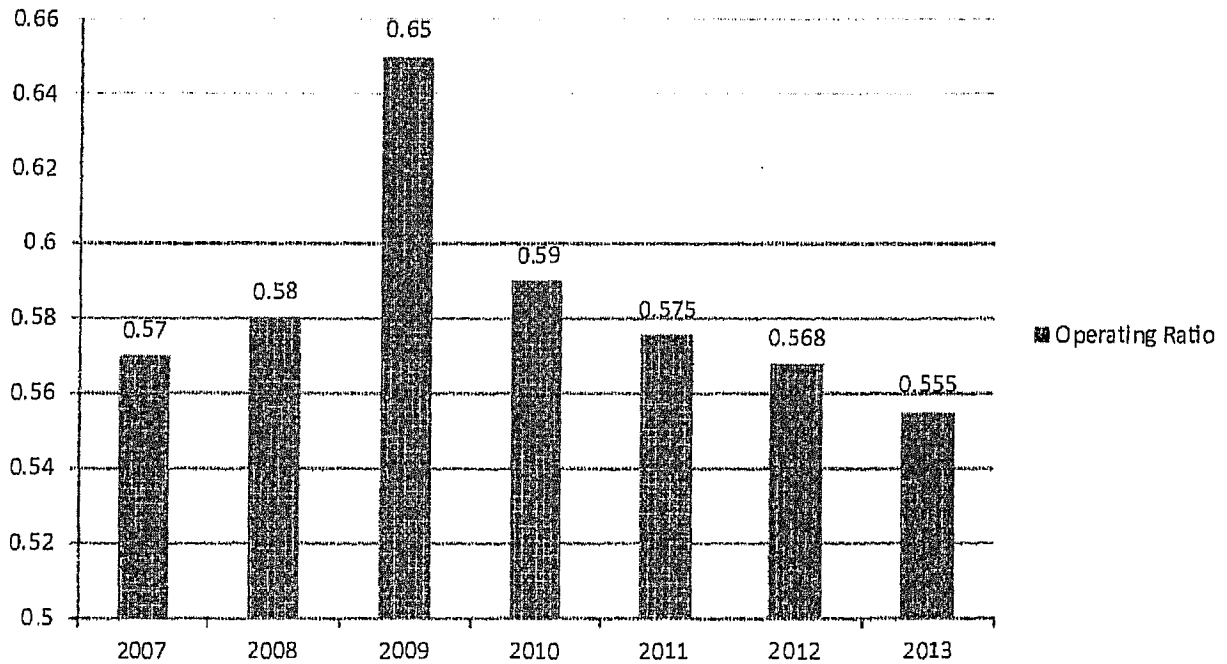
Contacting District Management

This financial report is designed to provide an easy to read general overview of the District's finances to its ratepayers, creditors, or public at large. It also provides accountability for the money received by the district. Questions concerning this report may be directed to the Manager of the District at 205 Main Cross Street in Ghent, Kentucky 41045, phone 502-347-9500.

Operating Expenses vs Operating Revenue



Operating Ratio



CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF NET POSITION
December 31, 2013 and 2012

	2013	Restated 2012
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 1,299,691	\$ 1,237,467
Accounts Receivable (Net)	167,662	181,404
Grant Proceeds Receivable	-	16,286
Other Receivables	14,573	11,635
Inventory	163,460	91,193
Prepaid Expense	39,596	36,530
Total Current Assets	\$ 1,684,882	\$ 1,574,505
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 951,130	\$ 761,851
Interest Receivable	24	54
Capital Assets (Net)	10,297,046	10,657,406
Deposits	100	100
Total Noncurrent Assets	\$ 11,248,300	\$ 11,419,411
Total Assets	\$ 12,933,182	\$ 12,993,916
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 35,676	\$ 22,774
Accounts Payable - Construction	4,636	-
Accrued Compensated Absences	26,030	20,269
Accrued Wages	5,388	5,226
Accrued Payroll Taxes/Employee Withholding	13,007	12,338
Utility Tax Payable	4,154	4,005
Sales Tax Payable	2,832	3,259
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	73,466	88,910
Revenue Bonds Payable	146,000	246,600
Note Payable-Kentucky Infrastructure Authority	92,651	89,933
Total Current Liabilities	\$ 403,840	\$ 493,214
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 5,669,600	\$ 5,735,600
Note Payable - Kentucky Infrastructure Authority	1,095,377	1,188,028
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	16,437	14,897
Total Noncurrent Liabilities	\$ 6,701,314	\$ 6,938,425
Total Liabilities	\$ 7,105,154	\$ 7,431,639
DEFERRED INFLOWS OF RESOURCES		
Unamortized Bond Premiums	\$ 4,743	\$ 7,046
Total Deferred Inflows of Resources	\$ 4,743	\$ 7,046
NET POSITION		
Net investment In Capital Assets	\$ 3,368,776	\$ 3,390,399
Restricted for Capital Projects	6,972	6,964
Restricted for Debt Service	854,289	651,134
Unrestricted	1,593,249	1,506,734
Total Net Position	\$ 5,823,285	\$ 5,555,231

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2013 and 2012

	2013	Restated 2012
Operating Revenues:		
Charges for Services:		
Water Charges (Net)	\$ 1,711,160	\$ 1,718,615
Bulk Water Charges	61	37
Total Charges for Services	\$ 1,711,211	\$ 1,718,652
Other Charges and Miscellaneous:		
Billing Service Charges	\$ 40,998	\$ 39,928
Reconnect and Disconnect Charges	36,240	36,465
Miscellaneous	2,171	15,708
Total Other Charges and Miscellaneous	\$ 79,409	\$ 91,099
Total Operating Revenues	\$ 1,790,620	\$ 1,809,751
Operating Expenses:		
Accounting and Collecting Labor	\$ 97,976	\$ 89,787
Administrative Per Diem	16,200	16,050
Administrative Salaries	106,571	123,987
Depreciation Expense	464,527	464,043
Employee Benefits	44,197	48,469
Employee Licenses	50	1,519
Insurance	30,127	29,309
Maintenance of Mains/Distribution System	136,863	140,575
Office Supplies and Expense	45,077	39,257
Operating Labor	184,447	178,580
Other Interest Expense	223	199
Payroll Taxes	29,515	30,084
Professional Services	11,899	30,450
Purchased Power	142,854	144,937
Purchased Water	9,896	9,305
Regulatory Fees	3,473	3,407
Repairs & Maintenance	6,573	15,393
Retirement Plan Expense	70,791	73,754
Transportation Expense	33,063	27,471
Uniforms	5,654	6,555
Utilities & Telephone	9,560	12,624
Water Treatment Expense	7,344	5,880
Total Operating Expenses	\$ 1,458,660	\$ 1,491,635
Operating Income	\$ 331,960	\$ 318,116
Nonoperating Revenue (Expense):		
Investment Income	\$ 5,330	\$ 9,478
Interest Expense	(231,623)	(277,074)
Bond Issuance Costs	-	(132,689)
Gain (Loss) on Sale/Abandonment of Fixed Assets	23,632	(85,306)
Total Nonoperating Revenue (Expense)	\$ (202,561)	\$ (485,591)
Net Income (Loss) Before Contributions & Special Items	\$ 129,399	\$ (167,475)
Capital Contributions	138,655	207,582
Special Item		
Industrial & Department of Transportation Line Relocation Projects		
Income	\$ 87,282	\$ 74,150
Expense	(87,282)	(74,150)
Total Special Item	\$ -	\$ -
Change in Net Position	\$ 268,054	\$ 40,087
Net Position--Beginning of Year	5,555,231	5,515,144
Net Position--End of Year	\$ 5,823,285	\$ 5,555,231

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,725,814	\$ 1,686,865
Payments to Suppliers	(650,701)	(625,631)
Payments to Employees	(399,271)	(408,106)
Other Receipts (Payments)	79,409	91,099
Net Cash Provided (Used) by Operating Activities	\$ 755,251	\$ 744,227
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds Line Relocations	\$ 84,798	\$ 74,150
Costs Associated with Line Relocations	(84,752)	(185,914)
	\$ 46	\$ (111,764)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 17,203	\$ 28,102
Purchase of Capital Assets (Including Work in Process)	(85,317)	(195,588)
Bond Proceeds	-	3,785,000
Principal Paid on Capital Debt	(336,433)	(3,900,794)
Interest Paid on Capital Debt	(249,280)	(272,063)
Grant Proceeds	125,385	225,524
Proceeds Build America Bonds Interest Reimbursement	12,353	13,083
Proceeds Sale of Capital Assets	6,888	6,841
Bond Premium Received	-	2,719
Bond Issuance Costs	-	(132,689)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (509,201)	\$ (439,865)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	\$ (4,187)	\$ (7,791)
Interest Received	5,417	9,452
Net Cash Provided (Used) by Investing Activities	\$ 1,230	\$ 1,661
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 247,326	\$ 194,259
Balances-Beginning of the Year	1,180,259	986,000
Balances-End of the Year	\$ 1,427,585	\$ 1,180,259

	Balances Per December 31, 2013 Statement of Net Position	Balances Per December 31, 2013 Statement of Cash Flows
Cash	\$ 805,350	\$ 805,350
Time Deposits	494,341	-
Restricted Cash	622,235	622,235
Restricted Time Deposits	328,895	-
Total Cash and Cash Equivalents, End of Year	\$ 2,250,821	\$ 1,427,585

	Balances Per December 31, 2012 Statement of Net Position	Balances Per December 31, 2012 Statement of Cash Flows
Cash	\$ 745,630	\$ 745,630
Time Deposits	491,827	-
Restricted Cash	434,629	434,629
Restricted Time Deposits	327,222	-
Total Cash and Cash Equivalents, End of Year	\$ 1,999,308	\$ 1,180,259

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 331,960	\$ 318,116
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	464,527	464,043
Change in Assets and Liabilities:		
Receivables, Net	13,842	(36,393)
Other Receivables	(511)	1,890
Inventories	(72,267)	(4,499)
Prepaid Expenses	(3,066)	(812)
Accounts Payable	12,902	3,531
Accrued Wages	162	1,950
Utility Tax Payable	159	323
Sales Tax Payable	(427)	963
Accrued Payroll Taxes & Employee Benefits	669	(4,663)
Customer Meter Deposits Payable	1,540	1,430
Accrued Compensated Absences	5,761	(1,652)
Net Cash Provided by Operating Activities	\$ 755,251	\$ 744,227

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2013, Carroll County Water District No. 1 had \$4,636 outstanding obligations relating to capital construction of plant assets.

At December 31, 2012, Carroll County Water District No. 1 had no outstanding obligations relating to capital construction of plant assets.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Description of entity: Carroll County Water District No. 1 is a rural water company serving approximately 3,000 customers in Carroll, Owen and Gallatin Counties, Kentucky of which 169 are considered commercial and 30 are industrial users, or large users. The District is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of Carroll County through its fiscal court in 1960 and began operations in 1965.

In evaluating how to define Carroll County Water District No. 1 for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets plus deferred outflows net of total liabilities and deferred inflows) are segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by bond agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

Inventory: inventories are stated at latest cost.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Structures & Improvements	10-35 years
- Distribution System	10-45 years
- Wells	35 years
- Machinery & Equipment	5-30 years

Debt Issuance Costs: Such costs are expensed as incurred.

Compensated Absences: See Note 9 for the District's policy on vacation and sick pay.

Deferred Outflows and Deferred Inflows

The District adopted GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 65 established accounting and reporting standards that reclassified certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognized certain items previously reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term "deferred" in the financial statement presentation. The implementation of GASB 65 required the District to retroactively recognize costs of issuance as outflows of resources and restate its fiscal 2012 financial statements by eliminating any carrying amounts of bond issuance costs and related amortization thereof.

The effect of the restatement is discussed in Note 17.

Income Taxes: The Carroll County Water District No. 1 is not subject to income taxes.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. Tap on fees of \$17,203 and \$28,102 were received by the District for the years ended December 31, 2013, and 2012, respectively. Additional capital contributions of \$109,099 Kentucky Grant Funds and \$12,353 Build America Bonds interest reimbursement were received by the District during the year ended December 31, 2013. Capital contributions of \$166,377 of Kentucky Grant Funds and \$13,083 Build America Bond interest reimbursement were received by the District during the year ended December 31, 2012.

Net position: In 2012, the District adopted Statement of Governmental Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which requires the District to report net position and changes the title of the Statement of Net Assets to the Statement of Net Position (effective for periods beginning after December 15, 2011). Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Carroll County Water District No. 1 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was to be established with the District's original bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the outstanding bond issues is as follows:

$$\begin{array}{r}
 \text{one sixth (1/6) of the next semiannual interest payment} \\
 + \text{ one twelfth (1/12) of next annual principal payment} \\
 = \text{monthly transfer}
 \end{array}$$

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2013 and 2012.

Under the bond resolution of the original 1965 bonds (now redeemed), a Depreciation Account was to be established to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. Under the provisions of the 1994 Bond Resolution, an adjustment was required to be made in the Depreciation Fund requirements upon the issuance of any bonds on a parity with the Series 1994 bonds. Therefore, with the issuance of subsequent bonds, additional transfer requirements were established as follows:

<u>Series</u>	<u>Transfer Due</u>	<u>Accumulation Required</u>
1999 A & B	\$2,090/month	\$250,800
2005 A & B	525/month	63,000
2010	510/month	61,200
Total		\$375,000

The 1994, 1997 A & B, and 1999 Series A & B issues were refunded with the issuance of the 2012B Bond Issue. The issue of 2012 ratified and confirmed the transfers required above to continue in force.

When the required balance of \$375,000 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. The Depreciation Account is to be maintained as long as any of the bonds are outstanding.

Under the District's debt agreement with the Kentucky Infrastructure Authority (KIA) a R&M Reserve is to be funded. \$7,500 is to be transferred annually into the reserve until a balance of \$75,000 is obtained.

A separate reserve has not been established for the Kentucky Infrastructure Authority reserve. However, the District has funded reserve accounts sufficient to fund the maximum accumulation mandated in the 1999 bond agreement plus the KIA's required balance at December 31, 2012. The District transferred the monthly amounts required under the Series 2005 A and B bond agreement, and the additional \$510 payment required by the 2010 Series bond agreement during 2012.

After the required monthly transfers to the respective bond and interest account, and depreciation account, a transfer of one-twelfth (1/12) of the annual budgeted expenditures for the District is to be transferred to an operation and maintenance account for making expenditures for the District. Sixty days following year end, all remaining funds in the revenue account in excess of two (2) months operating budget requirements are to be transferred to the depreciation account.

The District has not set up a separate revenue account. At December 31, 2012 the District had sufficient funds in the depreciation accounts to meet this requirement. At December 31, 2013, \$160,824 was calculated as the required transfer to be made and has been considered restricted.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities, including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 3 – CASH AND INVESTMENTS (Continued)

Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Carroll County Water District No. 1's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2013 and 2012. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the District (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

December 31, 2013

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 1,553,062	\$ 694,889	\$ 858,173	\$ -	\$ 1,427,486
Time/Savings Deposits	823,235	250,000	573,235	-	823,235
Total Deposits	\$ 2,376,297	\$ 944,889	\$ 1,431,408	\$ -	\$ 2,250,721

December 31, 2012

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 1,206,950	\$ 680,425	\$ 526,525	-	\$ 1,080,159
Time/Savings Deposits	919,049	250,000	669,049	-	919,049
Total Deposits	\$ 2,125,999	\$ 930,425	\$ 1,195,574	\$ -	\$ 1,999,208

Reconciliation to Statement of Net Position:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Unrestricted Cash	\$ 1,299,691	\$ 1,237,457
Restricted Cash, Including Time Deposits	951,130	761,851
Less: Cash on Hand	(100)	(100)
	\$ 2,250,721	\$ 1,999,208

NOTE 4 – RESTRICTED ASSETS

Restricted assets consists of the following:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Restricted Cash and Time Deposits		
Bond and Interest Sinking Account	\$ 329,411	\$ 316,750
Depreciation Reserve Account	598,310	423,240
Customer Deposits	16,437	14,897
Construction	6,972	6,964
Total	\$ 951,130	\$ 761,851
Interest Receivable - Depreciation Reserve Accounts	\$ 24	\$ 54

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$3,324 and \$1,493 at December 31, 2013 and 2012, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 6 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full) or one year pending a satisfactory payment record. Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current market rate. Accrued interest is paid annually and when the deposit is refunded.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2013 and 2012, was as follows:

	Balance at January 1, 2013	Additions	Disposals	Balance at December 31, 2013
Land & Land Rights	\$ 277,816	\$ -	\$ -	\$ 277,816
Structures & Improvements	318,245	-	-	318,245
Distribution System	14,110,650	112,122	(96,285)	14,126,487
Wells	525,978	-	-	525,978
Machinery & Equipment	625,274	22,695	-	647,969
Construction in Process	-	11,124	-	11,124
Totals at Historical Cost	\$ 15,857,963	\$ 145,941	\$ (96,285)	\$ 15,907,619
Less: Accumulated Depreciation				
Structures & Improvements	\$ 114,136	\$ 8,939	\$ -	\$ 123,075
Distribution System	4,460,245	407,797	(54,511)	4,813,531
Wells	229,702	15,028	-	244,730
Machinery & Equipment	396,474	32,763	-	429,237
Total Accumulated Depreciation	\$ 5,200,557	\$ 464,527	\$ (54,511)	\$ 5,610,573
Capital Assets, Net	\$ 10,657,406	\$ (318,586)	\$ (41,774)	\$ 10,297,046
	Balance at January 1, 2012	Additions	Disposals	Balance at December 31, 2012
Land & Land Rights	\$ 276,816	\$ 1,000	\$ -	\$ 277,816
Structures & Improvements	318,245	-	-	318,245
Distribution System	14,225,630	111,846	226,826	14,110,650
Wells	525,978	-	-	525,978
Machinery & Equipment	453,242	172,032	-	625,274
Construction in Process	95,013	177,491	272,504	-
Totals at Historical Cost	\$ 15,894,924	\$ 462,369	\$ 499,330	\$ 15,857,963
Less: Accumulated Depreciation				
Structures & Improvements	\$ 105,077	\$ 9,059	\$ -	\$ 114,136
Distribution System	4,184,637	410,287	134,679	4,460,245
Wells	214,674	15,028	-	229,702
Machinery & Equipment	366,805	29,669	-	396,474
Total Accumulated Depreciation	\$ 4,871,193	\$ 464,043	\$ 134,679	\$ 5,200,557
Capital Assets, Net	\$ 11,023,731	\$ (1,674)	\$ 364,651	\$ 10,657,406

CARROLL COUNTY WATER DISTRICT NO. 1
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 December 31, 2013 and 2012

NOTE 7 – CAPITAL ASSETS (Continued)

Included under the District's Plant Assets at December 31, 2013 and 2012, respectively, were \$438,929 and \$373,700 of fully depreciated assets. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$464,527 and \$464,043 in 2013 and 2012, respectively.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2013 and 2012, the long-term debt payable consisted of the following:

Notes Payable:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Kentucky Infrastructure Authority represents a 20 year loan, original principal of \$1,908,662, secured by water revenues. Interest is charged at 3% per annum. Payments are made semi-annually. Final maturity is December 1, 2024.	\$ 1,188,028	\$ 1,277,961
Total Notes Payable	<u>\$ 1,188,028</u>	<u>\$ 1,277,961</u>
Current Portion	\$ 92,651	\$ 89,933
Noncurrent Portion	1,095,377	1,188,028
Total Notes Payable	<u>\$ 1,188,028</u>	<u>\$ 1,277,961</u>

Bonds Payable:

Kentucky Rural Water Finance Corporation, Flexible Term Finance Program, Series 2005 C, original issue amount of \$829,000, secured by water revenues. Interest is charged at the rate of 4.03% per annum. Final maturity is January 1, 2015.	\$ 10,000	\$ 123,000
RECD Revenue Bonds of 2005 Series A, original issue amount of \$592,000, secured by water revenues. Interest is charged at the rate of 4.375% per annum. Final maturity is September 1, 2044.	541,000	549,000
RECD Revenue Bonds of 2005 Series B, original issue amount of \$319,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is September 1, 2044.	290,500	295,000
RECD Revenue Bonds of 2010, (Build America Bonds – Direct Payment), original issue amount of \$1,246,000, secured by water revenues. Interest is charged at the rate of 3% per annum. Final maturity is September 1, 2049.	1,214,000	1,230,000
Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program) Series 2012 (B), original issue (District Share) \$3,785,000, secured by water revenues. Interest is charged at the rates of 2.2% - 4.2% per annum. Final maturity is January 1, 2039.	<u>3,680,000</u>	<u>3,785,000</u>

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT

Bonds Payable:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Total Bonds Payable	\$ 5,735,500	\$ 6,982,000
Current Portion	\$ 146,000	\$ 246,500
Noncurrent Portion	5,589,500	5,735,500
Total Bonds Payable	\$ 5,735,500	\$ 5,982,000

Accrued Compensated Absences:

Current Portion	\$ 26,030	\$ 20,269
Noncurrent Portion	-	-
Total Accrued Compensated Absences	\$ 26,030	\$ 20,269

Bonds Payable – U.S. Department of Agriculture – Rural Development, Series 2010

On November 11, 2010, the Carroll County Water District No. 1 issued \$1,246,000 Taxable Waterworks Revenue Bonds, Series 2010 with an interest rate of 3%. The proceeds were used to finance the 2007 water system improvement project. The first interest payment was due March 1, 2011. The first principal payment was due September 1, 2012. The final payment will be due September 1, 2049. These bonds are taxable Build America Bonds. As such, the District will receive annual federal credit payments toward the debt service of approximately 35% of each interest payment due. The credit will amount to \$319,024 over the life of the issue.

Bonds Payable-Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2005 C

On October 19, 2005 Carroll County Water District No. 1 entered into an \$829,000 bond agreement with Kentucky Rural Water Finance Corporation. The proceeds of the bonds were used to redeem the District's then outstanding lease with U.S. Bank (principal, interest, and 3% redemption premium as required) on November 1, 2005.

The total cash flow required to service the (old) 1992 lease was \$1,100,322. This exceeded the cash flow required to service the new issue of \$997,058 by \$103,265. The economic gain to the District is \$75,249 as calculated on a present value basis.

Bonds Payable – Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2012 B

On March 28, 2012, Carroll County Water District No. 1 issued \$3,785,000, Series 2012 B Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds with interest rates of 2.2% - 4.2% to advance refund \$422,000, Series 1994; \$920,000, Series 1997 A; \$1,018,000 Series 1997 B; \$610,000, Series 1999 A; and \$706,000, Series 1999 B revenue bonds outstanding. The 1994 and 1999 A & B Series were originally issued at 4.5%. The 1997 A & B Series were issued at 4.875%. The refunded bonds were redeemed on March 30, 2012 at a price equal to 100% of the principal amount of the refunded bonds outstanding at that date. Bond issuance costs were \$132,689.

As a result of the advance refunding, the District reduced its total debt service requirements by \$526,506, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$312,668. Final maturity on the 2012 issue is January 1, 2039.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2013 and 2012.

December 31, 2013

	Balance at January 1, 2013	Additions	Retirements	Balance at December 31, 2013	Current Portion
Notes Payable	\$ 1,277,961	\$ -	\$ (89,933)	\$ 1,188,028	\$ 92,651
Bonds Payable	5,982,000	-	(246,500)	5,735,500	146,000
Accrued Compensated Absences	20,269	5,761	-	26,030	26,030
Total Enterprise Fund Debt	\$ 7,280,230	\$ 5,761	\$ (336,433)	\$ 6,949,558	\$ 284,681

December 31, 2012

	Balance at January 1, 2012	Additions	Retirements	Balance at December 31, 2012	Current Portion
Notes Payable	\$ 1,365,255	\$ -	\$ (87,294)	\$ 1,277,961	\$ 89,933
Bonds Payable	6,010,500	3,785,000	(3,813,500)	5,982,000	246,500
Accrued Compensated Absences	21,921	-	(1,652)	20,269	20,269
Total Enterprise Fund Debt	\$ 7,397,676	\$ 3,785,000	\$ (3,902,446)	\$ 7,280,230	\$ 356,702

The annual requirements for all long-term debt outstanding at December 31, 2013, are as follows:

Due	Note Payable	Note Payable Interest	Service Fee	Bonds	Bonds Interest	Transfer Fee	Federal Credit Interest Payment	Total Principal, Interest, Trustee Fee & Servicing Fee
2014	\$ 92,651	\$ 34,951	\$ 2,913	\$ 148,000	\$ 186,446	\$ 450	\$ 12,747	\$ 476,157
2015	95,451	32,151	2,679	142,000	182,748	450	12,669	468,046
2016	98,338	29,266	2,439	142,000	179,374	450	12,380	464,245
2017	101,309	26,293	2,191	144,500	175,940	450	12,191	462,874
2018	104,370	23,231	1,936	150,500	171,854	450	11,991	464,332
2019-2023	571,124	66,887	5,573	840,000	782,667	2,250	56,700	2,325,101
2024-2028	124,787	2,815	235	991,000	637,140	2,250	50,558	1,808,785
2029-2033	-	-	-	1,192,000	447,918	2,250	43,208	1,685,376
2034-2038	-	-	-	1,134,000	218,572	2,250	34,440	1,389,262
2039-2043	-	-	-	489,500	73,795	450	23,971	567,716
2044-2048	-	-	-	309,000	21,265	-	11,445	341,710
2049	-	-	-	55,000	1,361	-	287	56,648
	\$ 1,188,028	\$ 215,594	\$ 17,966	\$ 5,735,500	\$ 3,078,977	\$ 11,700	\$ 282,487	\$ 10,530,252

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt (Continued)

The annual requirements for all long-term debt outstanding at December 31, 2012, are as follows:

Due	Note Payable	Note Payable Interest	Service Fee	Bonds	Bonds Interest	Transfer Fee	Federal Credit Interest Payment	Total Principal, Interest, Trustee Fee & Servicing Fee
2013	\$ 89,933	\$ 37,669	\$ 3,139	\$ 246,500	\$ 194,222	\$ 450	\$ 12,915	\$ 584,828
2014	92,651	34,951	2,913	146,000	186,445	450	12,747	476,157
2015	95,451	32,151	2,679	142,000	182,746	450	12,569	468,046
2016	98,336	29,266	2,439	142,000	179,374	450	12,380	464,246
2017	101,309	28,293	2,191	144,500	175,940	450	12,191	462,874
2018-2022	554,367	83,643	6,970	812,500	808,694	2,260	57,813	2,326,237
2023-2027	245,914	9,290	774	956,500	668,812	2,250	51,870	1,935,410
2028-2032	-	-	-	1,147,000	490,438	2,250	44,783	1,684,471
2033-2037	-	-	-	1,255,000	264,193	2,250	36,320	1,557,763
2038-2042	-	-	-	532,500	90,648	900	26,219	650,267
2043-2047	-	-	-	346,500	28,133	-	14,133	387,766
2048-2049	-	-	-	112,000	3,544	-	1,462	117,006
	<u>\$ 1,277,961</u>	<u>\$ 253,263</u>	<u>\$ 21,105</u>	<u>\$ 5,982,000</u>	<u>\$ 3,273,189</u>	<u>\$ 12,150</u>	<u>\$ 295,402</u>	<u>\$ 11,115,070</u>

NOTE 9 – COMPENSATED ABSENCES

Employees receive one half sick day per month for sick time. A maximum of six months sick leave can be accumulated. Unused sick time accumulated is added to service time at retirement from the District. Vacation days accumulate as follows:

At the end of 1st year	-	1 week
At the end of 3rd year	-	2 weeks
At the end of 10th year	-	3 weeks
At the end of 15th year	-	4 weeks

Unused vacation may be carried into the next calendar year.

The District accrues a liability for compensated absences which meet the following criteria:

1. The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, (included in current accrued compensated absences) the District accrues a liability for sick pay which has been earned but not taken by District employees of retirement age. However, no employees were eligible for retirement at December 31, 2013 and 2012, respectively. Sick leave accumulated but not accrued at December 31, 2013 and 2012 was \$21,302 and \$14,934, respectively. At December 31, 2013 and 2012, a liability for accrued vacation due was recorded in the amount of \$26,030 and \$20,269, respectively.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION

	December 31, 2013	December 31, 2012
Restricted Capital Projects:		
Monies Reserved for Future Construction	\$ 6,972	\$ 6,964
Total Restricted for Capital Projects	\$ 6,972	\$ 6,964
Restricted for Debt Service:		
RECD Revenue Bonds of 1994, 1997 Series A & B, 1999 Series A & B, 2005 Series A & B, 2010 Series, Kentucky Rural Water Refunding Revenue Bonds, Series 2012 B and Kentucky Infrastructure Authority Note Payable		
Cash	\$ 927,721	\$ 739,990
Add: Accrued Interest Receivable	24	54
Less: Accrued Interest Payable	(73,466)	(88,910)
Total Restricted for Debt Service	\$ 854,289	\$ 651,134

NOTE 11 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2013 and 2012 was \$231,746 and \$277,273, respectively. No interest was capitalized in 2013 or 2012.

NOTE 12 – THE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the Commissioners. Electing employees and all new employees of the District may participate in the System. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2013. Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will also be available to Legislative personnel and state libraries.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted.

Contributions – For the fiscal years ended June 30, 2013, and 2012, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board 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 bases adopted by the Board. For the fiscal years ended June 30, 2013 and 2012, participating employers contributed 19.55% and 18.96%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2013 and 2012, were 19.55% and 18.96%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

**CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012**

NOTE 12 – THE COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

The District's total payroll for the year ended December 31, 2013 was \$407,547. Contributions were based on \$368,490 (eligible gross wages). The total pension expense for the year ended December 31, 2013 was \$70,791 and \$19,315 for the employer and employees, respectively. All contributions were made as required during the year ended December 31, 2013.

The District's total payroll for the year ended December 31, 2012 was \$415,311. Contributions were based on \$391,379 (eligible gross wages). The total pension expense for the year ended December 31, 2012 was \$73,753 and \$20,018 for the employer and employees, respectively. All contributions were made as required during the year ended December 31, 2012.

The District's contribution for the year ended June 30, 2013 and 2012, was .0186% and .0197%, respectively, of the System's total contribution requirements for all employers.

For non-hazardous duty, the required contributions to the plan were as follows:

	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Retiree Drug Subsidy Contributions</u>	<u>Percentage Contributed</u>
June 30, 2013	490,475,114	454,906,887	-	92.7%
June 30, 2012	476,185,027	447,661,027	-	94.0%
June 30, 2011	432,414,052	435,404,150	-	100.7%

The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from CERS. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance for current beneficiaries.

NOTE 13 – ECONOMIC DEPENDENCY

Carroll County Water District No. 1 provides water services to residential, commercial and industrial customers. It should be noted that 19.4% and 17.83% of total water revenue was received from two industries, North American Stainless and Gallatin Steel, for the years ended December 31, 2013 and 2012.

NOTE 14 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through premiums paid to Kentucky Association of Counties All Lines Fund. The District is also subject to the risks associated with employee injury. These risks are covered through premiums paid to the Kentucky Association of Counties, Workers' Compensation Self-insurance Fund. Such coverage is retrospectively rated and premiums may be adjusted based on experience.

NOTE 15 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$19,851 and \$9,841 at December 31, 2013 and 2012, respectively.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2013 and 2012

NOTE 16 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Carroll County Water District No. 1, has entered into a water resale agreement with Kentucky American Water Company to supply Kentucky American Water Company's customers in the area of Wheatley, Kentucky. Under this agreement, as amended September 15, 2013, Carroll County Water District No. 1 will sell its water to the Kentucky American Water Company at a price of \$2.26 per 1,000 gallons. The agreement is for a term of 20 years with automatic one-year extensions unless terminated by either party upon one year's written notice. Rates may be modified by providing 120 days notice or by action of the Public Service Commission.

The District has motions before the Public Service Commission, Franklin Circuit Court, and the Kentucky Court of Appeals regarding its service area and the provision of services within that area. We are unable to determine what effect these decisions will have on the District.

The District has entered into a 99 year lease with the City of Ghent for the use of one of the City's buildings. The District paid the City \$15,000 for the lease. The prepayment is being amortized over the life of the lease.

Carroll County Water District was awarded a \$550,000 grant through the State legislative process. This grant was used to reimburse the District for radio-read meters, two new service vehicles, reimbursements for costs associated with the District's standby generator project and additional system improvements. The District received the funding over the years ended December 31, 2011 through December 31, 2013 as the costs were incurred, with final reimbursement received in December, 2013.

The District has entered into an interlocal agreement with Carrollton Utilities to participate in an "interconnect" improvement project to improve each utility's ability to continue service in an emergency. The project will be financed through Kentucky Infrastructure Authority with 25% debt forgiveness. Carroll County Water District's share of the project is estimated at \$224,685. Heritage Consultants has been awarded the engineering contract on the project.

The District has entered into an interlocal agreement with Carrollton Utilities to participate in the *Focus on Care Mission and Infrastructure Project*. Under the project the District will install SCADA at six sites in its system to prevent water loss and alert District staff when issues arise.

The district approved a contract with Walter Martin Excavating, Inc. in the amount of \$71,370 for the replacement of the waterline on Highway 355.

NOTE 17 – FINANCIAL STATEMENT RESTATEMENT

The District adopted Statement of Governmental Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, which amends the financial statement classification of certain items to now be included as deferred inflows and outflows categories on the Statement of Net Position. Under GASBS No. 65, debt issuance costs are no longer to be reported in the Statement of Net Position because the GASB has determined that they do not meet the definition of assets, liabilities, deferred outflows of resources, or deferred inflows of resources. Retroactive application by restating financial statements for all periods presented is required. The effect of the reinstatement is as follows for the year ended December 31, 2012:

Statement of Net Position:

Total Net Position as Originally Presented	\$ 5,742,101
Less Net Unamortized Bond Issuance Costs	(163,386)
Unamortized Deferred Loss - Early Debt Retirement	<u>(23,484)</u>
Total Net Position as Restated	<u>\$ 5,555,231</u>

CARROLL COUNTY WATER DISTRICT NO. 1
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 December 31, 2013 and 2012

NOTE 17 – FINANCIAL STATEMENT RESTATEMENT (Continued)

The components of Net Position at December 31, 2012 after restatement are as follows:

Net Investment in Capital Assets	\$ 3,390,399
Restricted for Capital Projects	6,964
Restricted for Debt Service	651,134
Unrestricted	<u>1,506,734</u>
 Total Net Position	 <u>\$ 5,555,231</u>

Statement of Revenues, Expenses, and Changes In Fund Net Position:

Change in Net Position as Originally Reported	\$ 161,392
Add Back:	
Amortization Expense of Bond Issuance Costs	7,750
Amortization of Deferred Loss on Early Retirement Included in Interest Expense	3,634
Less: Bond Issuance Costs 2012 Issue Expensed	<u>(132,689)</u>
 Change in Net Position as Restated	 \$ 40,087
 Net Position, January 1, 2012 (as Restated)	 <u>5,515,144</u>
 Net Position, December 31, 2012 (as Restated)	 <u>\$ 5,555,231</u>

The effect of the restatement on the Net Position at December 31, 2011 is as follows:

Net Position as Originally Reported	\$ 5,580,709
Less: Net Unamortized Bond Issuance Costs	(56,156)
Deferred Loss-Early Debt Retirement	(9,409)
Net Position as Restated, December 31, 2011	<u>\$ 5,515,144</u>

NOTE 18 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68 is effective for periods beginning after June 15, 2014. Under this statement governments will be required to report the net pension liability associated with its' employee's pension as a liability in their accrual-based financial statements. A government has a present obligation to pay deferred benefits earned by its employees. "Net Pension Liability" represents the government's obligation to pay deferred benefits when the total pension [plan's] liability exceeds the pension plan's net assets. This reporting requirement is an important change that will more clearly depict the government's financial position. While this information will, in some cases give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

**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 of the
Carroll County Water District No. 1
Ghent, KY 41045

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 Carroll County Water District No. 1 as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Carroll County Water District No. 1's basic financial statements, and have issued our report thereon dated March 19, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Carroll County Water District No. 1'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 Carroll County Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Carroll County Water District No. 1's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Items 2013-001 and 2013-002).

COMPLIANCE AND OTHER MATTERS

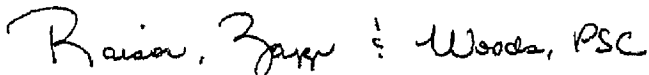
As part of obtaining reasonable assurance about whether Carroll County Water District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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*.

CARROLL COUNTY WATER DISTRICT NO. 1'S RESPONSE TO FINDINGS

Carroll County Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Carroll County Water District No. 1'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 result 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.



RAISOR, ZAPP, & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

March 19, 2014

**CARROLL COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2013**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Carroll County Water District No. 1.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the 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. Items 2013-001 and 2013-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Carroll County Water District No. 1, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

2013-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2012 as 12-1.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes to review the accuracy and consistency of the financial information prepared.

RESPONSE:

We concur with the recommendation. Management will enhance the monthly review and checking procedures associated with its financial information.

CARROLL COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2013

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

2013-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2012 as 12-2.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

RESPONSE:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

COMPLIANCE AND OTHER MATTERS

NONE

RAISOR, ZAPP & WOODS, P.S.C.

Certified Public Accountants

513 HIGHLAND AVENUE
P.O. BOX 354
CARROLLTON, KENTUCKY 41008
(502) 732-6655 FAX (502) 732-6161

To the Commissioners of the
Carroll County Water District No. 1
Ghent, Kentucky 41045

RURAL DEVELOPMENT COMPLIANCE LETTER

We have audited the financial statements of Carroll County Water District No. 1 as of December 31, 2013, and have issued our report thereon dated March 19, 2014. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Carroll County Water District No. 1 for the year ended December 31, 2013, we considered its internal control over financial reporting as a basis for designing our auditing procedures 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 Carroll County Water District No. 1's internal control over financial reporting. After obtaining an understanding of the control environment and the flow of transactions through the accounting system, we did not rely on the system of internal accounting controls because of the size of the entity. Our review identified material weaknesses in the internal accounting control system as disclosed in the Schedule of Findings and Questioned Costs.

The following information is presented as supplemental information in accordance with USDA Rural Development's requirements.

1. The accounting records of Carroll County Water District No. 1 appear adequate.
2. Control over fixed assets is adequate.
3. USDA Rural Development loan agreements require transfers to be made monthly to the Bond and Interest Sinking Account and Depreciation Account. Transfers to these accounts were made timely.
4. The general accounting records were kept on forms and in the manner suggested by Rural Development.
5. All bank accounts were confirmed directly by the depository and reconciled to the cash balances as shown in these financial statements. The accounts are insured by the Federal Deposit Insurance Corporation, and \$1,800,000 (face value)/\$1,767,734 (market value) in securities pledged by the depository to secure the District's funds.

To the Commissioners of the
 Carroll County Water District No. 1
 Page Two

6. Insurance coverage may be summarized as follows (November 15, 2013 values):

<u>Fire and Extended Coverage</u>		<u>Building</u>	<u>Contents</u>
Office Building	205 Main Cross St.	\$ 179,196	\$ 28,923
Pre-Fab Bldg./Pump Station	186 Main St.	32,288	104,040
Pre-Fab Bldg./Chem Feed	186 Main St.	5,381	10,404
Pump House	186 Main St.	30,135	31,212
Ghent Booster Pump House	186 Main St.	32,288	166,464
Well/Pump		-	20,808
Well/Pump		-	20,808
Well/Pump		-	8,323
Well/Pump		-	8,323
191,000 Gallon Tank	Bucks Run Rd.	373,351	12,485
Tank-50,000 Gallon	M & T Rd.	64,575	-
500,000 Gallon Tank	Hwy 1112	1,191,839	34,229
Pump Station	Ghent Eagle Rd.	41,436	62,424
Tank-50,000 Gallon	Worthville	64,575	-
Tank-Standpipe-200,000 Gallon	Dividing Ridge Rd.	386,804	7,491
Tank-80,000 Gallon	Ghent	80,719	-
Tank-50,000 Gallon	Hwy 47	64,575	-
Tank-50,000 Gallon	Hwy 47	64,575	-
Booster Station-Underground	Buffalo Rd.	-	28,010
Tank-Standpipe-125,000 Gallon	Jackson Ridge Rd.	316,740	20,184
Booster Station-Underground	Cauley Farm	-	13,265
Storage Building	Hwy 42 & 47	75,338	52,020
Treatment Plant	Gallatin Co.	5,381	52,020
Well #7-Motor/Switch Gear		-	20,808
Well #8-Motor/Switch Gear		-	20,808
Tank/Fence-KU-Elev.-150,000 Gallon		605,391	34,541
Tank-Standpipe-171,000 Gallon	Hwy 355	364,418	35,166
Pump Station-Underground	Perry Park	-	83,232
Pump Station-Above ground	Kendall Rd.	-	20,808
Tank-200,000 Elevated Tank	Saylor Road	710,110	35,270
Well #5 Pump/Switchgear	Fishing Street	-	20,808
Radio Elementary Tank & Pump Stations		-	50,000
Telecommunications Equip.		-	50,000
Case Tractor Backhoe		-	20,000
Ditch Witch		-	15,000
Computer Equipment		-	50,000
Hydraulic Excavator		-	15,000
2000 Vac-Tron		-	15,000
Gooseneck/12T Trailer		-	11,000
Trailer		-	3,000
SCADA Additions		-	95,000
Old City Building		32,288	10,404
Underground Booster Station		80,719	-
Underground Valve Station		72,109	-
Valve Station - Orchard Lane		72,109	-
Tank 300,000 Gallon - Orchard Lane		285,206	416
Underground Valve Station - Lewis Road		71,355	-
Underground Valve Station - Buck Run Road		69,741	-
2011 Sullair 185 CFM Air Compressor		-	7,500
2011 Cummins 100 KW Portable Generator		-	35,000
2011 Cummins 700 KW Power Generator		-	75,000
2011 Hammer Head Trenchies Powermate Pump Station		-	5,000
Browns Bottom		5,381	31,212
Totals		\$ 5,378,023	\$ 1,439,406

Commercial Liability Limits of Insurance

General Liability Aggregate/Products	\$1,000,000 per claim/\$3,000,000 aggregate
Errors/Omissions/Employment Practices	\$1,000,000 per claim/\$1,000,000 aggregate /1,000 deductible
Employment Practices	\$1,000,000 per claim/\$1,000,000 aggregate /1,000 deductible
Business Income	\$500,000 per claim/\$500,000 aggregate
Flood	\$1,000,000 per claim/\$1,000,000 aggregate

Transportation Equipment

Liability/Bodily Injury	\$1,000,000 each accident ACV/Deductible \$500
Under Insured/Un-Insured	\$60,000

Workman's Compensation

All Employees	Statutory
Crime other than Employee Dishonesty	\$150,000 / \$500 deductible
Employee Dishonesty, Forgery, Theft	\$150,000 / \$250 deductible
Legal Defense Coverage	\$100,000 / \$0 deductible
Individual Bonds	\$355,000 (each) District Manager/Secretary Treasurer/Deductible \$500

- Carroll County Water District No. 1 is a governmental unit and thus exempt from income taxes.
- The aggregate amount of customer accounts receivable at December 31, 2013, was \$170,886, net of the allowance for bad debts of \$3,324.

Respectfully submitted,

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
 Certified Public Accountants

March 19, 2014



KENTUCKY INFRASTRUCTURE AUTHORITY

1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601
Phone (502) 573-0260
Fax (502) 573-0157
<http://kia.ky.gov>

Steven L. Beshear
Governor

John E. Covington III
Executive Director

March 14, 2014

The Honorable Gene McMurry, Mayor
City of Carrollton
P.O. Box 269
Carrollton, KY 41008

KENTUCKY INFRASTRUCTURE AUTHORITY
FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND
CONDITIONAL COMMITMENT LETTER (F13-007)
EXTENSION

Dear Mayor McMurry:

The Kentucky Infrastructure Authority ("the Authority") has approved an extension of the Drinking Water State Revolving Fund (DWSRF) loan F13-007 for the Carroll County Interconnect Project. The Authority has extended the deadline for the City of Carrollton f/b/o Carrollton Utilities to meet the conditions set forth in the conditional commitment letter for six (6) months. The original expiration date was May 6, 2014. The new expiration date will be November 6, 2014. If the project does not meet the conditions by the new expiration date, no additional extensions will be considered and the commitment will be rescinded.

Please inform the Authority of any changes in your financing plan as soon as possible. We wish you every success for this project which will benefit both your community and the Commonwealth as a whole.

Sincerely,

John E. Covington, III
Executive Director

cc: Chas Robbins, Carrollton Utilities
Terry Roach, P.E., Carrollton Utilities
Buddy Griffin, Division of Water
Dirk Bedarff, Peck, Shaffer & Williams LLP
State Local Debt Office, DLG
Borrower File - City of Carrollton - F13-007

RECEIVED

MAR 17 2014

CARROLLTON UTILITIES

