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**GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT**

Audited Financial Statements

For The Fiscal Year Ended December 31, 2012



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, #500

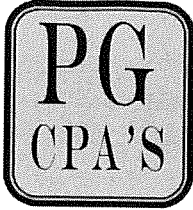
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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Garrison-Quincy-KY-O-Heights Water District
Garrison, Kentucky

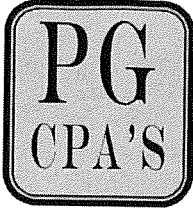
We have audited the accompanying financial statements of the business-type activities of the Garrison-Quincy-KY-O-Heights Water District, as of and for the year ended December 31, 2012 as listed in the table of contents. These financial statements are the responsibility of the Garrison-Quincy-KY-O-Heights Water District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Garrison-Quincy-KY-O-Heights Water District, as of December 31, 2012, and the respective changes in financial position, where applicable, and the cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The District has omitted the management's discussion and analysis that Governmental Accounting Standards Board (GASB) requires to 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 on an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



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July 31, 2013

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2012

Assets

Current Assets

Cash - Unrestricted	\$ 31,147
Cash - Restricted	150,798
Accounts Receivable	90,483
Unbilled Receivables	23,292
Allowance for Doubtful Accounts	(34,687)
Inventory	31,020
Prepaid Expenses	6,534

Total Current Assets	298,587
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Property and Equipment - Net of Accumulated Depreciation

Land & Easements	311,788
Buildings	1,295,516
Wells, Springs, & Reservoirs	125,021
Pumping Equipment	33,458
Transmission & Distribution	3,423,486
Sewer Lines	3,990,666
Vehicles & Heavy Equipment	46,061
Office, Tools, & Other Equipment	29,999

Total Property and Equipment - Net of Accumulated Depreciation	9,255,995
----------------------------------------------------------------	-----------

Total Assets

	\$ 9,554,582
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The accompanying notes are an integral part of these financial statements.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2012

Liabilities & Net Assets

Current Liabilities	
Accrued Interest	27,960
Accrued Taxes	5,594
Accounts Payable - Deferred Comp	1,423
Compensated Absences	4,893
Accounts Payable	10,495
Unearned Revenue	1,266
Accounts Payable - Retirement	4,883
Bonds Payable	31,900
Total Current Liabilities	88,414
 Long-term Liabilities	
Bonds Payable	1,520,200
Customer Deposits	7,943
Total Long-term Liabilities	1,528,143
Total Liabilities	1,616,557
 Net Assets	
Invested in Capital Assets, Net of Related Debt	7,735,795
Restricted:	
Capital Equipment Reserve	7,573
Debt Service Reserve	57,682
Depreciation Reserve	76,728
Unrestricted	60,247
Total Net Assets	7,938,025
Total Liabilities & Net Assets	\$ 9,554,582

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

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

Operating Revenues

Water Billing	\$ 421,217
Sewer Billing	148,673
Bad Debt Expense	(2,300)
Miscellaneous	2,038
	2,038

Net Operating Revenues

569,628

Operating Expenses

Water Expenses	
Advertising and Printing	247
Bank Charges	1,101
Chemicals and Salt	2,511
Continuing Education	2,147
Depreciation	97,829
Dues and Subscriptions	42
Enroachment Bond	177
Equipment Expense and Repairs	3,526
Fuel	6,076
Health Insurance	12,678
Materials and Supplies	33,667
Miscellaneous	967
Office Supplies	7,697
Outside Services	30,241
Other Employee Benefits	110
Other Utilities	1,692
Payroll Taxes	15,442
Phone	5,195
Postage	4,833
Professional Fees	11,863
Property Insurance	9,656
Regulatory Commission Expense	831
Repairs and Maintenance	301
Retirement	31,453
Salaries	130,027
Supplies and Testing	4,422
Unemployment Insurance	6,550

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

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

Operating Expenses (Continued)	
Water Expenses (Continued)	
Electric	26,874
Vehicle Expense	175
Water Purchased	32,484
Worker's Compensation	3,410
Total Water Expense	<u>484,224</u>
Sewer Expenses	
Contracted Services	14,400
Electric	14,691
Material and Supplies	3,137
Fuel	334
Phone	2,627
Depreciation	77,667
Postage	2,642
Testing	3,759
Miscellaneous	11,926
Repairs and Maintenance	1,871
Continuing Education	260
Salaries and Wages	40,386
Total Sewer Expense	<u>173,700</u>
Total Operating Expenses	<u>657,924</u>
Net Operating Income	(88,296)
Non Operating Revenues (Expenses)	
Interest Expense	(56,649)
Kentucky Infrastructure Authority Grant Proceeds	25,129
Interest Income	339
Total Non Operating Revenues (Expenses)	<u>(31,181)</u>
Change In Net Assets	(119,477)
Net Assets - Beginning of Year	<u>8,057,502</u>
Total Net Assets - End of Year	<u><u>\$ 7,938,025</u></u>

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

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

Cash Flows From Operating Activities	
Payments From Customers	\$ 586,726
Miscellaneous Income	6,235
Payment to Vendors	(248,850)
Payments for Payroll and Related Expenses	(243,792)
Net Cash Provided/(Used) by Operating Activities	<u>100,319</u>
Cash Flows From Capital And Related Financing Activities	
Additions to Capital Assets	(8,585)
Kentucky Infrastructure Authority Grant Proceeds	25,129
Interest Paid on Capital Debt	(56,649)
Reduction in Bonds Payable	(30,300)
Net Cash Provided/(Used) by Capital and Related Financing Activities	<u>(70,405)</u>
Cash Flows From Investing Activities	
Cash Received From Interest	<u>339</u>
Net Cash Provided/(Used) By Investing Activities	<u>339</u>
Increase/(Decrease) In Cash	30,253
Cash At Beginning Of Year	<u>150,888</u>
Cash At End Of Year	<u><u>\$ 181,141</u></u>

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

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

Reconciliation Of Net Operating Income To Net Cash Provided By Operating Activities

Net Operating Income	\$ (88,296)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	175,496
Changes in Assets/Liabilities:	
Payments for financing activities	86,949
Accounts Receivable	(44,117)
Inventory	(19,112)
Prepaid Expenses	(361)
Accrued Interest	(517)
Allowance For Doubtful Accounts	2,300
Accounts Payable	(3,790)
Unearned Revenue	1,266
Accrued Salaries	(7,347)
Accrued Payroll Taxes	(1,164)
Accounts Payable Deferred Compensation	806
Accounts Payable Retirement	163
Compensated Absences	(1,325)
Bonds Payable	1,600
Customer Deposits	(2,232)
Net Cash Provided/(Used) by Operating Activities	<u>\$ 100,319</u>

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

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Garrison-Quincy-KY-O-Heights Water District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Organization & Activity

The District was created in accordance with Chapter 74 of the Kentucky Revised Statutes in 1966. The purpose of the District is to provide water and wastewater services to residents in rural Lewis County.

Financial Reporting Entity

The District complies with GASB Statements No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations Are Component Units." These Statements establish standards for defining and reporting on the financial reporting entity. They define component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not considered a component unit of any other governmental unit for financial reporting purposes.

The District considered all potential component units in determining what organizations should be included in its financial statements. Based on an evaluation of the established criteria, management determined that there were no component units to include in the District's financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements provide information about the District's business-type activities. The financial statements for the business-type activities are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe which transaction and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting", refers to when transactions or events are recorded regardless of measurement focus applied.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Because of the “businesslike” characteristics of the District’s operations, the accompanying financial statements report uses the economic resources measurement focus and the accrual basis of accounting. The accounting objective of the “economic resources” measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District utilizes an enterprise fund to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business or where the Board has decided that the determination of revenues earned, cost incurred and /or net income is necessary for management accountability.

As the means for delivering services to its customers, the District utilizes an office building, infrastructure, office equipment, equipment and vehicles. To provide the resources that are necessary to pay for water and wastewater services and the related support functions, the District charges its customers monthly user fees, which are based on the specific level of services that they are receiving. Because the operations of the District closely mirror those of a typical, commercial company, its accounting records reflect a similar approach for measuring its business activity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the preparation of the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governmental entities also have the option of following subsequent private-sector guidance in accounting and reporting on its operations, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance.

The District’s various bond resolutions or ordinances require the establishment of certain accounts, which are referred to as “funds”. These required accounts are maintained as part of accounting records of the Water and Sewer Fund. They include the Sinking Fund (Debt Service), Revenue Fund, and Depreciation Reserve Fund (Repairs and Maintenance). These are not “funds” as the term is used in generally accepted accounting principles, but are

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

separate "accounts" used to delineate the accounting and reporting for bond related money and repayment security requirements. The balances and activity that occur in these various accounts represent specific segments of the Water and Sewer Utility enterprise fund as reported in the District's financial statements.

The enterprise fund used by the District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Budgeting

The District prepares annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year. Project-length budgets, which generally encompass more than one fiscal year, are also prepared for major construction projects. Both the operating and project-length expenditure plans are prepared on the cash basis of accounting, which significantly differs from the accrual basis of accounting that the District uses in the preparation of its financial statements.

These managerial budgets that are prepared for operations each year or at the inception of a major construction project are not adopted by the Board as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been practiced for utility accounts receivables. The District estimates that allowance based on the following percentages of arrears: Thirty days past due: 30% of accounts receivable, sixty days past due: 70% of accounts receivable, and

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts (Continued)

ninety days or more past due: 95% of accounts receivable. Bills are due by the tenth of each month. It is the policy of the District to shut off water service one month after nonpayment. Customer deposits held are applied to outstanding bills. At December 31, 2012, the allowance for doubtful account was \$34,687.

Accounts and Unbilled Receivables

Accounts receivable are stated at face amount. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on December 20, 2012 was for customer usage from approximately November 15 through December 15, 2012. The entire amount is considered accounts receivable as of December 31, 2012. The billing mailed on January 24, 2013 was for usage from approximately December 15, 2012 through January 15, 2013. Fifty percent of this billing is considered unbilled receivables at December 31, 2012.

Deposits and Investments

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing account of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Property, Plant, and Equipment

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water distribution systems, sewer collection systems, and similar items) are reported as a component of noncurrent assets in the basic financial statement. Capital assets are generally defined by the District as being those assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant, and Equipment (Continued)

Depreciation is charged as an expense against operations. Capital assets of the authority are depreciated using the straight-line method over their estimated useful lives in years.

The depreciation expense provided on the proprietary fund assets during the period ended December 31, 2012 is \$175,497.

Capitalized Interest On Indebtedness

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed. The total interest expense incurred by the District during the current fiscal year was \$56,649. During the year, there was no interest that was capitalized and included as part of the cost of capital assets.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of cash on hand, demand and savings deposits, and certificates of deposit.

Inventory and Prepaid Items

Included in inventory are materials and supplies to support maintenance work on the District's infrastructure. All inventories maintained by the District are valued at cost.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

Restricted Net Assets

Some of the District's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets, whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements, or enabling legislation.

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. The "debt service" accounts are used to segregate resources accumulated for debt service payments over the next twelve months.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Assets (Continued)

The “depreciation reserve” account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals, replacements, and extensions.

Federal Income Tax

The District is exempt from federal income tax.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. RESTRICTIONS ON CASH

Bond Sinking Fund

Deposits into Bond Sinking Funds are required to be made monthly in order to accumulate funds for payment of bond principle and interest. At December 31, 2012, \$79,680 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2013. The balance in this account at December 31, 2012 was \$57,682.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit \$988 per month into the account. The District had \$67,725 in this account for the purpose of maintaining the water system.

Restricted Cash Accounts

The District is required to maintain special deposit accounts for customer deposits and long-term debt obligations. The following is a listing of restricted cash accounts of the District:

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 2. RESTRICTIONS ON CASH (Continued)

Restricted Cash Accounts (Continued)

Restricted Accounts	
Customer Deposit Account	\$ 8,815
Bond and Interest Sinking Fund	57,682
Depreciation Reserve Fund	4,567
Sewer Fund	9,003
Equipment Account	7,573
Certificates of Deposit -	
Replacement Reserves	44,407
Depreciation Fund	<u>18,751</u>
Total Restricted Cash Accounts	<u>\$ 150,798</u>

NOTE 3. CASH AND INVESTMENTS

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2012, these requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy of custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2012, all deposits were covered by FDIC insurance.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 4. PROPERTY, PLANT, AND EQUIPMENT

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Proprietary Activities:</u>				
Capital Assets Not Being Depreciated:				
Land & Easements - Water Distribution	\$ 261,788	\$	\$	\$ 261,788
Land & Easements - Sewer Processing	50,000			50,000
Total Capital Assets Not Being Depreciated	311,788			311,788
Capital Assets, Being Depreciated:				
Buildings - Water Distribution	380,866			380,866
Buildings - Sewer Processing	1,150,000			1,150,000
Wells, Springs, & Reservoirs	179,430			179,430
Pumping Equipment	167,282			167,282
Transmission & Distribution	4,167,484			4,167,484
Water Treatment	542,810			542,810
Sewer Lines	4,100,000			4,100,000
Vehicles & Heavy Equipment	104,644	8,585		113,229
Office, Tools, & Other Equipment	51,069			51,069
Total Capital Assets Being Depreciated	10,843,585	8,585		10,852,170
Less Accumulated Depreciation For:				
Buildings - Water Distribution	(181,040)	(8,310)		(189,350)
Buildings - Sewer Processing	(23,000)	(23,000)		(46,000)
Wells, Springs, & Reservoirs	(50,422)	(3,987)		(54,409)
Pumping Equipment	(125,460)	(8,364)		(133,824)
Transmission & Distribution	(679,883)	(64,115)		(743,998)
Water Treatment	(542,810)			(542,810)
Sewer Lines	(54,667)	(54,667)		(109,334)
Vehicles & Heavy Equipment	(58,329)	(8,839)		(67,168)
Office, Tools, & Other Equipment	(16,856)	(4,214)		(21,070)
Total Accumulated Depreciation	(1,732,467)	(175,496)		(1,907,963)
Total Capital Assets, Being Depreciated, Net	9,111,118	(166,911)		8,944,207
Proprietary Activities Capital Assets, Net	\$ 9,422,906	\$ (166,911)	\$ 0	\$ 9,255,995

The District's major classes of utility capital assets and accumulated depreciation are shown below:

Proprietary Activities:

Proprietary Activities	(175,496)
Total Depreciation Expense - Proprietary Activities	\$ (175,496)

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 5. BONDS PAYABLE

1. Waterworks Revenue Series A and Series B 1987

On April 22, 1987, the District entered into an agreement with Rural Development to issue \$300,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvement to the existing waterworks system of the District. The Waterworks System Bond Issue consisted of Series A and B bonds.

Series A was issued in the amount of \$250,000 and Series B, in the amount of \$50,000. Semiannual interest payments at a rate of 6.375% for Series A and 5.875% for Series B are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2012, the principal balance outstanding was \$176,000 on Series A and \$32,600 on Series B. Debt Service requirements for year ending December 31, 2013, and thereafter is as follows:

Waterworks Revenue Bond Series A 1987:

Year Ended December 31	Principal	Interest and Fees
2013	\$ 7,000	\$ 10,997
2014	7,000	10,551
2015	8,000	10,073
2016	8,000	9,562
2017	9,000	9,021
2018-2022	56,000	35,255
2023-2027	81,000	13,675
Totals	<u>\$ 176,000</u>	<u>\$ 99,134</u>

Waterworks Revenue Bond Series B 1987:

Year Ended December 31	Principal	Interest & Fees
2013	\$ 1,400	\$ 1,874
2014	1,500	1,789
2015	1,600	1,698
2016	1,700	1,601
2017	1,800	1,498
2018-2022	10,500	5,742
2023-2027	14,100	2,177
Totals	<u>\$ 32,600</u>	<u>\$ 16,379</u>

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 5. BONDS PAYABLE (Continued)

2. Waterworks Revenue Series 1996

On August 5, 1996, the District entered into an agreement with Rural Development to issue \$295,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvement to the existing waterworks system of the District. Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2012, the principal balance outstanding was \$237,000. Debt Service requirements for year ending December 31, 2013, and thereafter is as follows:

Year Ended December 31	Principal	Interest & Fees
2013	\$ 5,500	\$ 10,541
2014	6,000	10,283
2015	6,000	10,013
2016	6,500	9,731
2017	6,500	9,439
2018-2022	47,000	42,289
2023-2027	50,500	32,603
2027-2032	63,000	20,476
2033-2036	46,000	5,513
Totals	<u>\$ 237,000</u>	<u>\$ 150,888</u>

3. Waterworks Revenue Series 2002

On June 3, 2002, the District entered into an agreement with Rural Development to issue \$356,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvement to the existing waterworks system of the District. Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2012, the principal balance outstanding was \$321,000. Debt Service requirements for year ending December 31, 2013, and thereafter is as follows:

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 5. BONDS PAYABLE (Continued)

3. Waterworks Revenue Series 2002 (Continued)

Year Ended December 31	Principal	Interest & Fees
2013	\$ 5,000	\$ 14,333
2014	6,000	14,085
2015	6,000	13,815
2016	6,000	13,545
2017	6,000	13,275
2018-2022	37,000	61,674
2023-2027	45,000	52,493
2028-2032	56,000	41,176
2033-2037	70,000	27,046
2038-2042	84,000	9,495
Totals	<u>\$ 321,000</u>	<u>\$ 260,937</u>

4.

Waterworks Revenue Series 2010

On May 10, 2010, the District entered into an agreement with Rural Development to issue \$798,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvement to the existing waterworks system of the District. Semiannual interest payments at a rate of 2.25% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2012, the principal balance outstanding was \$785,500. Debt Service requirements for year ending December 31, 2013, and thereafter is as follows:

Year Ended December 31	Principal	Interest & Fees
2013	\$ 13,000	\$ 17,528
2014	13,000	17,235
2015	13,500	16,937
2016	14,000	16,628
2017	14,000	16,313
2018-2022	77,000	76,535
2023-2027	87,500	67,304
2028-2032	100,000	56,757
2033-2037	113,500	44,780
2038-2042	129,000	31,140
2043-2047	147,000	15,638
2048-2049	64,000	1,440
Totals	<u>\$ 785,500</u>	<u>\$ 378,235</u>

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2012

NOTE 5. BONDS PAYABLE (Continued)

5. Changes in Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Proprietary Activities:</u>					
Revenue Bonds	\$ 1,582,400	\$ -	\$ 30,300	1,552,100	\$ 31,900
Proprietary Activities					
Long-term Liabilities	<u>\$ 1,582,400</u>	<u>\$ 0</u>	<u>\$ 30,300</u>	<u>\$ 1,552,100</u>	<u>\$ 31,900</u>

NOTE 6. NET ASSETS

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

NOTE 7. RETIREMENT

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

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The District's contribution rate for nonhazardous employees was 18.96 percent for the first months of 2012 and 19.55 percent for the last six months of 2012.

The District's contribution for FY 2010 was \$25,530, FY 2011 was \$27,792, and FY 2012 was \$30,630.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 7. RETIREMENT (Continued)

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

CERS also provides postretirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid By Insurance Fund</u>	<u>% Paid by Member Through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

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

NOTE 8. INSURANCE COVERAGE

The District is exposed to various risks of loss. The District carries commercial insurance for risks of loss. As of December 31, 2011, there were no known losses for which an accrual was considered necessary and no estimated claims that have been incurred, but not reported.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of this report and nothing came to attention that should be disclosed.

NOTE 10. COMPENSATED ABSENCES

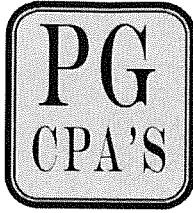
It is the District's policy to permit its employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave because the District does not have a policy to pay any amounts when employees separate from service with the District. The unused vacation or annual leave is considered a vested benefit.

In recognition of the resulting obligation, the District has accrued a liability for earned but unused vacation leave and accrued compensation time, having determined that payment of such compensation is probable and having developed a reasonable estimate based upon current salary costs, annual leave, and compensation time amounts as of December 31, 2012. The liability for compensated absences at December 31, 2012 was \$5,396.

NOTE 10. PRIOR PERIOD ADJUSTMENTS

The beginning net asset balance as of December 31, 2011 has been restated. We have made adjustments to correct prior year capital asset errors as well as other errors and omissions. In addition to the errors in omissions, the District reviewed and adjusted useful lives of some assets that also contributed to the adjustment.

Beginning Net Assets Per Prior Year Audit	\$ 6,936,482
Capital Asset Errors & Omissions	1,063,194
Other Errors & Omissions	<u>57,826</u>
Adjusted Beginning Net Asset Balance	<u>\$ 8,057,502</u>



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To the Commissioners
Garrison-Quincy-KY-O-Heights Water District
Garrison, Kentucky

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

We have audited the financial statements of the business-type activities of Garrison-Quincy-KY-O-Heights Water District, as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements, as listed in the table of contents and have issued our report thereon dated July 31, 2013. 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.

Internal Control Over Financial Reporting

Management of the Garrison-Quincy-KY-O-Heights Water District is responsible for establishing and maintaining effective internal control over financing reporting. In planning and performing our audit, we considered Garrison-Quincy-KY-O-Heights Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Garrison-Quincy-KY-O-Heights Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Garrison-Quincy-KY-O-Heights Water District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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,

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
(Continued)

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 identified one deficiency that we believe to be a material weakness described in the accompanying comments and recommendations as item 1.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 4 and 5 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Garrison-Quincy-KY-O-Heights Water District's financial statements as of and for the year ended December 31, 2012, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2, 3, 6, 7, and 8.

The District's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Commissioners, United States Department of Agriculture, Rural Development, and other federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Peercy and Gray, PSC

Peercy & Gray, PSC
Certified Public Accountants

July 31, 2013

**GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2012

FINANCIAL STATEMENT FINDINGS

1. The District Should Continue to Correct The Accounting System In Order To Produce Accurate Records

During testing procedures it was found that numerous errors were found within the accounting software in regards to debt service, capital assets, etc. We recommend that the District continue to address these issues in order to have a fully functional and accurate accounting system.

District's Response: The District will be sending employees to training to correct issues with software that is causing errors.

2. The District Should Comply With OAG 83-432

During the audit it was noted that the employees received Christmas bonuses totaling \$1,380. Bonuses are prohibited by Kentucky Constitution Section 3, according to OAG 83-432. Per OAG 83-432, a bonus is "as a grant of exclusive, separate public emolument or privilege--not in consideration of public service." We recommend that the District comply with OAG 83-432.

District's Response: The District will comply with OAG 83-432.

3. The District Should Adequately Fund The Reserve Account As Required

As a part of the debt agreement with the United States Department of Agriculture Rural Development (USDA), the District is required to fund a "Reserve" account. As of December 31, 2012, the "Reserve" account balance was \$57,682. The minimum required balance after the approved withdrawals was \$2,709. The required funded balance as of December 31, 2012 was \$79,680. We recommend that the District fund the "Reserve" account as required by the USDA.

District's Response: As funds become available the District will increase the monthly amount deposited.

4. The District Should Develop A Collection Policy For Past Due Accounts

During the review of accounts receivable, it was noted that there doesn't appear to be an effort in collecting monies owed for past due accounts. We recommend that the District establish a policy that is used to actively collect the money that is owed to the District. These methods may include hiring a collections agency or an attorney to pursue the collection of this money.

District's Response: The District will establish a policy to collect money owed to the District by sending debt to the County Attorney.

**GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2012
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

5. The District Should Review Accounts Receivable Periodically And Develop Policies Regarding Handling Of Old Accounts

It was noted that the District has a large number of patrons of whom has bills that are several years past due. We recommend that the District incorporate a policy that reviews the accounts receivable for collectability regularly and establish guidelines that determine when a receivable be considered uncollectable and written off.

District's Response: District will incorporate a policy to examine accounts receivable every 6 months to determine if bills are uncollectable and to be written off.

6. The Director Should Be Paid According To KRS 74.040

During the audit it was noted that the Director was being paid hourly. Per KRS 74.040, the director should be paid a salary as set by the board. We recommend that the Director be paid a salary as required.

District's Response: In the board meeting on July 9, 2013, the commissioners set a salary for the Director. He is no longer paid hourly.

7. The District Should Maintain Interest Bearing Accounts As Required By KRS 66.480

The District was found to have three bank accounts that are not earning interest. KRS 66.480 requires that public funds be invested. We recommend that the District ensure that all accounts are interest bearing.

District's Response: We have contacted the banks and all accounts now receive interest.

8. The District Should Review W-2's And 941's For Accuracy

During the review of payroll, it was found that not all boxes on the W-2's were accurately being filled out and therefore, federal taxes were not being withheld. Also, there were noted difference in the 941 reports and the year-end total. We recommend that W-2's and other payroll reports be reviewed for accuracy.

District's Response: The District will review the 941 and payroll reports for accuracy.

**GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2012
(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

9. The District Should Ensure Proper Cut-off Dates For All Reporting Purpose

It was noted during the audit that one bank account has a monthly end date on the 20th of each month and the bank reconciliation reflects the same. Also, it was found that other items such as the allowance for bad debt is not performed regularly and the date at which it is performed is not at the end of the month or year. We recommend that the District ensure that all supporting documentation, reports, etc. are performed at the end of each month and calendar year. Also, we further recommend that the District review the allowance for bad debt on December 31, 2012.

District's Response: The District will contact bank and have cutoff date changed. Allowance for bad debt will be determined regularly at the end of each month.