

BIG SANDY
WATER DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
for the year ended December 31, 2014

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John T. Lane and Associates, LLC
Certified Public Accountants
219 Young Lane, Suite 2
Mt. Sterling, Kentucky 40353
(859) 498-9915
www.thelanecpa.com

Member:
American Institute of CPA's
Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Big Sandy Water District
Catlettsburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Big Sandy Water District as of and for the year ended December 31, 2014 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Big Sandy Water District as of December 31, 2014, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required supplementary information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Big Sandy Water District's basic financial statements. The comparative statement of revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements

The schedule of expenditures of federal awards and comparative statement of revenues and expenses is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the comparative statement of revenues and expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other reports required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 29, 2015, on our consideration of the Big Sandy Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Big Sandy Water District's internal control over financial reporting and compliance.

John T. Lane & Associates, LLC

Mount Sterling, Kentucky

May 29, 2015

This report contains 20 pages.

Management's Discussion and Analysis

In June, 1999, the Governmental Accounting Standards Board (GASB) adopted Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The standard requires that a "Management Discussion and Analysis" be included in the annual report along with annual audited financial statements.

Our discussion and analysis of the Big Sandy Water District's Financial performance provided an overview of the Company's financial activities for the year ended December 31, 2014. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

In 2014, Big Sandy Water District had three significant activities that affected our financial status.

Contract D1 Water Transmission Line & Contract E1 Booster Pump Station—this is an emergency backup with City of Ashland that was actually started in 2006. These projects were bid out in August of 2013. Construction began in 2013 and will finish in 2015. We will be receiving grant money and obtaining a USDA/RD Loan to pay for this project.

Contract H—Lawrence County Fiscal Court installed water line for Rockhouse Trace Rd (3 taps), line for Torchlight Rd (9 taps), and started a water line for Long Fork Rd (5 taps). Then they gave the lines to Big Sandy Water District.

In April 2014, Big Sandy purchased two 2014 F-150 Pickups for \$21,500 each for a total of \$43,000.

Required Financial Statements

The financial statements of Big Sandy Water District (BSWD) reports information of BSWD using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information and its activities. The Statement of New Assets included all of Big Sandy Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to BSWD creditors (liabilities). It also provides the basis for evaluating the capital structure of BSWD and assessing the liquidity and financial flexibility of BSWD.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of Big Sandy Water District's operations over the past year and can be used to determine whether BSWD has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

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

Financial Analysis

Total assets to total liabilities for 2014 show a ratio of 2.90 to 1 meaning BSWD has \$2.90 worth of assets to each \$1.00 worth of liabilities. This compares to 2013 at 2.88 to 1 and 2012 at 2.73 to 1.

The Operating Revenue increased 9% in 2014 to \$2,480,637 from \$2,272,833. Forty-four percent of the revenue goes to purchase water. Hourly employees and benefits received 21%.

Charge-off accounts that were deemed not collectable were \$19,001 in 2014 compared to \$17,948 in 2013. This is .77% of revenue. That amount is covered by the \$55,613 collected as late payment penalties.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Big Sandy Water District's Finances and to demonstrate Big Sandy Water District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact James Blanton or Teresa Brown at (606) 928-2075 or 1-800-354-2933.

Big Sandy Water District
Statement of Net Position
Proprietary Fund Type
December 31, 2014

ASSETS

| | |
|---|-----------------------------|
| Current Assets | |
| Cash and cash equivalents - unrestricted | \$ 264,875 |
| Cash and cash equivalents - restricted (note 7) | 478,572 |
| Accounts receivable - net of allowance for doubtful accounts (note 1) | 232,429 |
| Inventory | 68,420 |
| Prepaid expenses | <u>11,819</u> |
| Total Current Assets | <u>1,056,115</u> |
| Noncurrent Assets | |
| Capital assets: (note 1) | |
| Work in progress | 1,673,396 |
| Plant, equipment and lines | 18,235,212 |
| Less accumulated depreciation | <u>(7,105,780)</u> |
| Total Noncurrent Assets | <u>12,802,828</u> |
| Total Assets | <u><u>\$ 13,858,943</u></u> |

LIABILITIES

| | |
|--------------------------------|------------------|
| Current Liabilities | |
| Accrued expenses | \$ 145,762 |
| Notes/Bonds payable (note 2) | 175,058 |
| Payable from restricted assets | <u>128,368</u> |
| Total Current Liabilities | <u>449,188</u> |
| Noncurrent Liabilities | |
| Notes/Bonds payable (note 2) | <u>4,322,762</u> |
| Total Noncurrent Liabilities | <u>4,322,762</u> |
| Total Liabilities | <u>4,771,950</u> |

Net Position

| | |
|----------------------------------|----------------------------|
| Net investment in capital assets | 8,305,008 |
| Restricted | 350,204 |
| Unrestricted | <u>431,781</u> |
| Total Net Position | <u><u>\$ 9,086,993</u></u> |

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

Big Sandy Water District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund Type
For the year ended December 31, 2014

| | |
|--------------------------------------|----------------------------|
| Revenues | |
| User fees | \$ 2,451,818 |
| Other water revenue | <u>28,819</u> |
| Total Revenues | <u>2,480,637</u> |
| Expenses | |
| Wages | 367,046 |
| Commissioners expense | 1,862 |
| Taxes & benefits | 163,250 |
| Purchased water & power | 1,096,808 |
| Materials & supplies | 172,003 |
| Contractual services | 41,730 |
| Trasnsportation expense | 39,079 |
| Equipment expense | 23,839 |
| Insurance | 20,974 |
| Postage | 19,434 |
| Bad debt | 19,001 |
| Other expense | 8,060 |
| Telephone | 6,628 |
| Depreciation | <u>399,124</u> |
| Total Operating Expenses | <u>2,378,838</u> |
| Operating Income (Loss) | <u>101,799</u> |
| Nonoperating Revenues (Expenses) | |
| Tap fees | 69,627 |
| Grant income | 590,772 |
| Interest income | 1,175 |
| Donated fixed assets | 109,070 |
| Other non operating revenues | 195,889 |
| Interest expense | <u>(178,097)</u> |
| Net Nonoperating Revenues (Expenses) | <u>788,436</u> |
| Net Income (Loss) | 890,235 |
| Total Net Position - beginning | <u>8,196,758</u> |
| Total Net Position - ending | <u><u>\$ 9,086,993</u></u> |

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

Big Sandy Water District
Statement of Cash Flows
Proprietary Fund Type
December 31, 2014

| | |
|---|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Operating revenues | \$ 2,468,099 |
| Cash paid to employees | (367,046) |
| Cash paid for general and administrative expenses | <u>(1,630,910)</u> |
| Net Cash provided by operating activities | <u>470,143</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Interest earned | 1,175 |
| Customer deposits | <u>15</u> |
| Net Cash provided by investing activities | <u>1,190</u> |
| CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES: | |
| Note/bond payments | (1,333,858) |
| Note/bond proceeds | 1,940,760 |
| Insurance proceeds | 4,613 |
| Tap fees | 69,627 |
| Grant revenues | 590,772 |
| Purchase of assets | (1,465,519) |
| Sale of assets | 600 |
| Interest paid | <u>(170,294)</u> |
| Net Cash used in capital and financing activities | <u>(363,299)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 108,034 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>635,413</u> |
| CASH AND CASH EQUIVALENTS - END OF THE YEAR | <u><u>\$ 743,447</u></u> |
| RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES: | |
| Net Operating Income | \$ 101,799 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | |
| (Increase)/Decrease in inventory | (13,866) |
| Depreciation | 399,124 |
| (Increase)/Decrease in accounts receivable | (12,538) |
| Increase/(Decrease) in accounts payable | <u>(4,376)</u> |
| Net cash provided by operating activities | <u><u>\$ 470,143</u></u> |

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

BIG SANDY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

Note 1 - Summary of Significant Accounting Policies

The Big Sandy Water District is a water utility which services areas of Boyd, Carter, Johnson and Lawrence Counties. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1981. The District is subject to the regulatory District of the Kentucky Public Service Commission pursuant to KRS 278. 040.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Big Sandy Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are not other organizations included in these financial statements.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund until it reaches the fully funded level of \$134,640. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside \$119,249 into this fund at December 31, 2014. The required balance at December 31, 2014 is \$120,640.

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2014 was \$102,384. The District had set aside \$164,576.

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. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (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.

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded as an asset at that time. They are recorded at lower of cost or market valued on the FIFO method.

Cash

At December 31, 2014, the carrying amount of the District's deposits was \$743,447 and the bank balance was \$810,230. Of the bank balance \$487,512 was covered by federal deposit insurance and \$322,718 was collateralized with securities held by the pledging financial institution's trust department. The District considers all investments with a maturity of three months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents.

Capital assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

| <u>Class</u> | <u>Life</u> |
|-----------------|-------------|
| Lines and tanks | 50 years |
| Hydrants | 30 years |
| Meters | 20 years |
| Equipment | 10 years |
| Vehicles | 5 years |

The District's capitalization policy is as follows: expenditures costing more than \$5,000 with an estimated useful life greater than one year are capitalized; all others are expensed.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

Investments

Investments are carried at cost which is the lower of cost or fair market value.

Accounts Receivable

The receivable reflected in the statements in the amount of \$232,429 is net of allowance for uncollectible in the amount of \$-0-.

Use of Estimates

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

Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2014, eight separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A

Lender – Rural Development
Balance of loan - \$870,000
Rate – 4.5%
Principal due January 1
Interest due January and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note B

Lender – USDA
Balance of loan - \$451,500
Rate – 4.5%
Principal due January 1
Interest due January and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note C

Lender – USDA
Balance of loan - \$1,050,000
Rate – 2.75%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note D

Lender – USDA
Balance of loan - \$393,000
Rate – 4.5%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note E

Lender – KRWFC
Balance of loan - \$686,000
Rate – Variable
Principal due – January 1
Interest due January 1 and July 1

Note F

Lender – Caterpillar Financial Services

Balance of loan - \$23,643

Rate – 3.75%

Principal and interest due – monthly, payment of \$1,431

Note G

Lender – KRWFC

Balance of loan - \$835,000

Rate – variable

The bonds were sold at a premium of \$84,203, which is being amortized over the term of the bond. The unamortized bond premium is recorded as a noncurrent liability. The premium amortization which is a decrease to interest expense was \$5,263 for 2014. The unamortized bond premium at December 31, 2014 was \$73,677.

Principal due – January 1

Interest due – January 1 and July 1

Note H

Lender – USDA

Balance of loan - \$115,000

Rate – 3.25%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

| Schedule of Notes/Bonds Payable | balance | | | Current | |
|--|--------------------|--------------------|--------------------|--------------------|-------------------|
| | <u>12/31/2013</u> | <u>Additions</u> | <u>Payments</u> | <u>12/31/2014</u> | <u>Portion</u> |
| USDA 91-07 | \$897,000 | \$- | \$27,000 | \$870,000 | \$28,500 |
| USDA 91-10 | 402,500 | - | 9,500 | 393,000 | 10,000 |
| USDA 91-11 | 460,000 | - | 8,500 | 451,500 | 9,000 |
| USDA 91-16 | - | 1,050,000 | - | 1,050,000 | - |
| USDA 91-18 | - | 115,000 | - | 115,000 | - |
| Kentucky Infrastructure C89-16 | 200,000 | - | 200,000 | - | - |
| Kentucky Rural Water 2007 | 725,000 | - | 39,000 | 686,000 | 41,000 |
| Kentucky Rural Water 2013 | 910,000 | - | 75,000 | 835,000 | 70,000 |
| Caterpillar | <u>39,593</u> | <u>-</u> | <u>15,950</u> | <u>23,643</u> | <u>16,558</u> |
| | <u>\$3,634,093</u> | <u>\$1,165,000</u> | <u>\$374,950</u> | <u>\$4,424,143</u> | <u>\$175,058</u> |
| Kentucky Rural Water (interim financing) | 373,825 | 775,760 | 1,149,585 | - | - |
| Bond premium | <u>78,940</u> | <u>-</u> | <u>5,263</u> | <u>73,677</u> | <u>-</u> |
| | <u>\$4,086,858</u> | <u>\$1,940,760</u> | <u>\$1,529,798</u> | <u>\$4,497,820</u> | <u>\$ 175,058</u> |

Schedule of maturities

| | <u>Principal</u> | <u>Interest</u> | | <u>Principal</u> | <u>Interest</u> |
|-----------|------------------|-----------------|-----------|--------------------|--------------------|
| 2015 | \$175,058 | \$167,742 | 2025-2029 | 872,000 | 350,600 |
| 2016 | 187,585 | 160,012 | 2030-2034 | 627,500 | 200,777 |
| 2017 | 189,000 | 152,538 | 2035-2039 | 345,500 | 114,431 |
| 2018 | 193,000 | 144,556 | 2040-2044 | 227,500 | 65,541 |
| 2019 | 123,000 | 143,552 | 2045-2049 | 198,500 | 37,744 |
| 2020-2024 | 1,053,000 | 552,685 | 2050-2054 | <u>232,500</u> | <u>8,429</u> |
| | | | | <u>\$4,424,143</u> | <u>\$2,098,607</u> |

Note 3- Pension Plan

The District provides pension benefits for its employees through the County Employees Retirement System (CERS). In this type of plan, the monthly retirement benefit is based upon several factors, primarily of which is the length of service, the systems benefit factor (2.5%), and the average of the five highest fiscal year wages from all public employee's retirement system participation (CERS, KERS, & SPRS). All full time employees who work an average of 100 hours per month over a fiscal year must participate with CERS.

The plan currently requires the District to contribute an amount equal to 18.89/17.67% of the employee's base salary each month, with employees required to contribute 5%. The District's contribution will vary, depending on the dictates of the management of the county plan. The required employer's contribution is usually reviewed at least annually.

The District's total payroll in year 2014 was \$368,135 and its contributions were calculated using the base salary amount of \$333,573. Contributions to the plan were \$16,679 and \$61,067 by the employees and the District, respectively.

Note 4 - Leave Policies

The District's employees are covered by leave policies as follow:

- a) sick leave – one day per month to a maximum accumulation of sixty days;
 - b) annual leave – five days per annum with 1-2 years employment; ten days per annum with 3-9 years employment; fifteen days per annum after 10 years employment. One week of annual leave may be carried forward to the next year, but must be taken by March 31st of that year.
- Accumulated leave not paid on termination.

Note 5 - Changes in Capital assets

The following is a summary of changes in the capital assets for the fiscal year:

| | balance <u>12/31/13</u> | Transfer/ <u>Additions</u> | <u>Deletions</u> | balance <u>12/31/14</u> |
|---------------------------|----------------------------|-------------------------------|------------------|----------------------------|
| Land | \$39,529 | \$- | \$- | \$39,529 |
| Structures & improvements | 121,531 | - | - | 121,531 |
| Distribution system | 15,912,979 | 94,604 | - | 16,007,583 |
| Vehicles | 156,625 | 43,000 | (34,681) | 164,944 |
| Equipment | 1,901,625 | - | - | 1,901,625 |
| Construction in process | <u>236,410</u> | <u>1,436,986</u> | - | <u>1,673,396</u> |
| | <u>18,368,699</u> | <u>1,574,590</u> | <u>(34,681)</u> | <u>19,908,608</u> |
| Accumulated depreciation | <u>6,741,337</u> | <u>399,124</u> | <u>(34,681)</u> | <u>7,105,780</u> |
| Net capital assets | <u>11,627,362</u> | | | <u>12,802,828</u> |

Note 6 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account.

Note 7 - Restricted Cash

Restricted cash is composed of the following:

| | |
|-----------------------------------|------------------|
| Deposit account | \$57,163 |
| Depreciation reserve fund | 119,249 |
| Debt reserve fund Regions (KRWFC) | 137,584 |
| Debt reserve fund (USDA) | <u>164,576</u> |
| | <u>\$478,572</u> |

Note 8 - Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2014. Areas of noncompliance, if any, as a result of examinations would be included as a part of the "Findings and Questioned Costs" section of this report.

Note 9 - Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

Note 10 - Investments

The District's investment policy is governed by the Kentucky Statutes. These requirements authorize the District to invest in obligations backed by full faith and credit of the United States and obligations of any corporation of the United States government. The policy requires that amounts on deposit with financial institutions be collateralized at a rate of 100% of amounts in excess of deposit insurance coverage.

Note 11 – Subsequent Events

The District has evaluated subsequent events through May 29, 2015 the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

JOHN T. LANE and ASSOCIATES, LLC
Certified Public Accountants
219 Young Lane, Suite 2
Mt. Sterling, Kentucky 40353
(859) 498-9915
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS

Board of Commissioners
Big Sandy Water District
Catlettsburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Big Sandy Water District as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Big Sandy Water District's basic financial statements and have issued our report thereon dated May 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Big Sandy Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Sandy Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Big Sandy Water District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

John T. Lane & Associates, LLC

Mount Sterling, Kentucky
May 29, 2015

John T. Lane and Associates, LLC
Certified Public Accountants
219 Young Lane, Suite 2
Mt. Sterling, Kentucky 40353
(859) 498-9915
www.thelanecpa.com

Member:
American Institute of CPA's
Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Commissioners
Big Sandy Water District
Catlettsburg, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Big Sandy Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Big Sandy Water District's major federal programs for the year ended December 31, 2014. The Big Sandy Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Big Sandy Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Big Sandy Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Big Sandy Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, The Big Sandy Water District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the Big Sandy Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Big Sandy Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Big Sandy Water District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

John T. Lane & Associates, LLC

Mt. Sterling, Kentucky
May 29, 2015

Big Sandy Water District
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2014

| <u>Program Title</u> | <u>Federal CFDA#</u> | <u>Federal Expenditures</u> |
|---|--------------------------|---------------------------------|
| U.S. Department of Agriculture Direct Program Water & Waste Disposal for Rural Communities | 10.760 | <u>\$1,584,444</u> |
| Totals | | <u>\$1,584,444</u> |

Notes to Schedule of Expenditures of Federal Awards

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the accrual activity of the District's federal award programs and does not present transactions that would be included in financial statements of the District presented on the accrual basis of accounting as contemplated by generally accepted accounting principles.

Big Sandy Water District
Schedule of Findings & Questioned Costs
December 31, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Big Sandy Water District.
2. No significant deficiencies relating to the audit of the financial statements is 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.
3. No instances of noncompliance material to the financial statements of Big Sandy Water District were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the report on compliance for the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Big Sandy Water District expresses an unqualified opinion.
6. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program includes the Water & Waste Disposal Systems, CFDA 10.760.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Big Sandy Water District was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

PRIOR FINDINGS

None

CURRENT FINDINGS

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

CURRENT FINDINGS

None

Big Sandy Water District
 COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
 for the years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|--------------------------------------|--------------|--------------|
| Revenues | | |
| User fees | \$ 2,451,818 | \$ 2,244,287 |
| Other water revenue | 28,819 | 28,546 |
| Total Revenues | 2,480,637 | 2,272,833 |
| Total Operating Expenses | 2,378,838 | 2,237,387 |
| Operating Income (Loss) | 101,799 | 35,446 |
| Nonoperating Revenues (Expenses) | | |
| Grants | 590,772 | 42,905 |
| Tap fees | 69,627 | 35,801 |
| Bond issue expenses | - | (17,715) |
| Donated fixed assets | 109,070 | 42,775 |
| Interest income | 1,175 | 772 |
| Other nonoperating revenues | 195,889 | 31,385 |
| Interest expense | (178,097) | (225,198) |
| Net Nonoperating Revenues (Expenses) | 788,436 | (89,275) |
| Net Income (Loss) | \$ 890,235 | \$ (53,829) |