



East Clark County Water District

Winchester, Kentucky

Financial Statements

And Independent Auditors' Report

For The Years Ended

December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
East Clark County Water District
Winchester, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the East Clark County Water District as of and for the years ended December 31, 2013 and 2012 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.

Auditors' Responsibility

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

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

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

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 East Clark County Water District as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-7 and 27 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 District's basic financial statements. The statements of functional expenses for the years ended December 31, 2013 and 2012 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements of functional expenses for the years ended December 31, 2013 and 2012 are the responsibility of management and were derived from and relates 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

statements of functional expenses for the years ended December 31, 2013 and 2012 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standard*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2014 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* in considering the District's internal control over financial reporting and compliance.

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
April 7, 2014

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2013 AND 2012

East Clark County Water District (the District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal years ending December 31, 2013, 2012, and 2011. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements in order to enhance their understanding of the District's financial performance.

2013 FINANCIAL HIGHLIGHTS

- The District's operating revenues and operating expenses remained consistent with the prior year.
- The Districts total assets decreased \$202,788 and total liabilities decreased \$237,285, resulting in an increase in total net position of \$34,497 or 0.41% from the prior year.
- Interest income for the year was \$14,014, which is a 40.0% decrease from 2012. The decrease reflects the continued decline in interest rates in 2013 and the reduction in interest bearing deposits because funds were used for construction.

GENERAL INFORMATION ABOUT EAST CLARK COUNTY WATER DISTRICT

The District recognized the need for a central water supply for the residents of the eastern section of Clark County, Kentucky early in its history. The District was organized in 1967 pursuant to Chapter 74 of the Kentucky Revised Statutes.

Management is vested in a five-member commission consisting of a chairman and four commissioners appointed by Clark County Fiscal Court.

The District relies on Winchester Municipal Utilities and Kentucky American Water Company for its water supply. Water is pumped to approximately 2400 customers through more than 197 miles of water mains. The Kentucky Public Service Commission (PSC) regulates the District in matters of rates, rules, and levels of service.

DISTRICT FINANCIAL ANALYSIS

The Statements of Net Position includes all of the District's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District. A summary of the District's Statements of Net Position is presented below.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2013 AND 2012

Condensed Statements of Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 2,273,382	\$ 2,646,286	\$ 3,037,871
Capital assets, net of depreciation	<u>8,295,756</u>	<u>8,525,640</u>	<u>8,511,369</u>
Total assets	<u>10,969,138</u>	<u>11,171,926</u>	<u>11,549,240</u>
Debt outstanding	2,375,328	2,644,438	2,891,000
Other liabilities	<u>216,045</u>	<u>184,220</u>	<u>450,419</u>
Total liabilities	<u>2,591,373</u>	<u>2,828,658</u>	<u>3,341,419</u>
Investment in capital assets, net of related debt	5,857,898	5,825,932	\$ 5,887,727
Restricted	136,201	136,201	150,649
Unrestricted	<u>2,383,666</u>	<u>2,381,135</u>	<u>2,260,615</u>
Total net position	<u>\$ 8,377,765</u>	<u>\$ 8,343,268</u>	<u>\$ 8,207,821</u>

Net position increased \$34,497 from 2012 to 2013, an increase of 0.41%. Debt outstanding has decreased \$269,110 or 9.5% from 2012.

Condensed Statements of Activities and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 1,367,696	\$ 1,460,087	\$ 1,400,156
Non-operating revenues	<u>452,553</u>	<u>183,963</u>	<u>208,183</u>
Total revenues	<u>1,820,249</u>	<u>1,644,050</u>	<u>1,608,339</u>
Operating expenses	948,077	936,518	898,800
Depreciation	312,278	296,780	304,860
Non-operating expense	<u>532,653</u>	<u>289,819</u>	<u>300,097</u>
Total expenses	<u>1,793,008</u>	<u>1,523,117</u>	<u>1,503,757</u>
Net income	27,241	120,933	104,582
Capital contributions	<u>7,256</u>	<u>14,514</u>	<u>12,698</u>
Changes in net position	34,497	135,447	117,280
Beginning net position	8,343,268	8,207,821	8,181,711
Adjustment arising in periods prior to January 1, 2012	<u>-</u>	<u>(91,170)</u>	<u>-</u>
Ending net position	<u>\$ 8,377,765</u>	<u>\$ 8,343,268</u>	<u>\$ 8,207,821</u>

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2013 AND 2012

The District's total revenue, excluding state grants, increased by \$176,199 or 10.7%. The increase is due in part to a Department of Transportation contract to relocate waterlines during a road improvement project. Total expenses increased \$269,891 or 17.7% due to the Department of Transportation contract. The increase in depreciation in 2013 of \$19,498 or 6.6% is attributed to purchases of new equipment. In 2013, non-operating expense consists of interest expense on long term debt of \$104,266 plus \$428,387 of construction expenses related to the Department of Transportation contract. In 2012 non-operating expense consisted of \$106,796 of interest paid on bonds, a loss of \$26,487 on scrapped equipment plus \$156,536 of construction expenses related to a Department of Transportation contract.

CAPITAL EXPENDITURES

Condensed Schedule of Capital Assets

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital assets	\$ 12,395,269	\$12,377,508	\$12,165,670
Accumulated depreciation	<u>(4,099,513)</u>	<u>(3,851,868)</u>	<u>(3,654,301)</u>
	<u>\$ 8,295,756</u>	<u>\$ 8,525,640</u>	<u>\$ 8,511,369</u>

In 2012, the District completed and placed in service the tank started in 2011, on KY Highway 15 for a total cost of \$933,041. In 2011, renovation of the pump station on Ecton Road was completed and placed in service for a total project cost of \$148,360. In addition the District started and completed and placed in service a line extension on Muddy Creek Road for a cost of 48,164. The cost of the Ecton Road pump station was \$196,524. Projects were financed with funds provided by state grants and the District's reserves. Equipment acquisitions were financed from the District's reserve funds in 2013, 2012 and 2011. Contributions to capital amounted to \$7,256 in 2013, \$14,514 in 2012, and \$12,698 in 2011, for new tap-ons to existing lines.

BONDS AND CAPITAL LEASE OBLIGATIONS

Condensed Schedule of Debt

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Bonds	\$ 1,371,328	\$ 1,470,438	\$1,554,000
Capital lease obligations	<u>1,004,000</u>	<u>1,174,000</u>	<u>1,337,000</u>
Total	<u>\$ 2,375,328</u>	<u>\$ 2,644,438</u>	<u>\$2,891,000</u>

The District made all of its scheduled debt payments during 2013, 2012, and 2011. During 2013, the District had new borrowing of \$130,000 from KRWFC Flexible Term Program. The rate of interest varies from 2.3% to 4.8% over the life of the bond. The net present value of the cashflow savings resulting from refinancing is \$15,129 over the life of the new bonds.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2013 AND 2012

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

The District continues to sustain slow growth. New tap-ons decreased \$7,258 from 2012 to 2013. Growth in 2014 is anticipated to remain at slow levels.

During 2013, the District's water rates did not increase. The District buys water for distribution to its customers. In the future, as costs of purchased water to rises, rate increases from WMU and Kentucky American Water Company who supply water to the District will be passed on to District customers.

The District decided to continue its meter change out program which began in the fall of 2006. Additional radio-read meters continue to be installed on the more heavily traveled roads. The benefits of the change will improve safety for the meter readers and improve reporting of customer usage and leak detection.

DISTRICT CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact East Clark County Water District, 118 Hopkins Street, Winchester, KY 40392 or by phone at (859) 745-1458 or by email at wdballard@bellsouth.net.

EAST CLARK COUNTY WATER DISTRICT
 STATEMENTS OF NET POSITION
 DECEMBER 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 543,019	\$ 493,102
Investments	1,800,609	1,787,960
Receivables:		
Customer accounts	112,418	108,391
Unbilled	37,120	41,916
Other accounts	56,306	32,696
Accrued interest	9,514	9,514
Inventory, at cost	24,613	24,984
Prepaid expenses	<u>13,450</u>	<u>11,522</u>
Total current assets	<u>2,597,049</u>	<u>2,510,085</u>
Restricted assets:		
Cash and cash equivalents	<u>76,333</u>	<u>136,201</u>
Total restricted assets	<u>76,333</u>	<u>136,201</u>
Capital assets:		
Property, plant and equipment, net of depreciation	8,237,712	8,467,596
Land	<u>58,044</u>	<u>58,044</u>
	<u>8,295,756</u>	<u>8,525,640</u>
Total assets	<u><u>\$ 10,969,138</u></u>	<u><u>\$ 11,171,926</u></u>

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2013 AND 2012

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable, trade	\$ 38,304	40,655
Accounts payable, construction	48,638	27,393
Accrued compensated absences	16,946	16,723
Accrued interest payable	27,254	24,270
Accrued liabilities	22,373	19,909
Lease obligations - current portion	178,000	170,000
Refundable customer deposits	62,530	55,270
Revenue bonds - current portion	76,000	104,000
	<u>470,045</u>	<u>458,220</u>
 Total current liabilities	 <u>470,045</u>	 <u>458,220</u>
Long-term liabilities:		
Revenue bonds net of current portion	1,295,328	1,366,438
Obligations under long-term lease net of current portion	826,000	1,004,000
	<u>2,121,328</u>	<u>2,370,438</u>
Total long-term liabilities	<u>2,121,328</u>	<u>2,370,438</u>
 Total liabilities	 <u>2,591,373</u>	 <u>2,828,658</u>
Net Position		
Investment in capital assets, net of related debt	5,857,898	5,825,932
Restricted:		
Restricted for debt retirement	117,001	117,001
Restricted for plant renewal and replacement	19,200	19,200
Unrestricted	2,383,666	2,381,135
	<u>8,377,765</u>	<u>8,343,268</u>
 Total net position	 <u><u>\$ 8,377,765</u></u>	 <u><u>8,343,268</u></u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Water sales	1,319,693	\$ 1,411,828
Other operating income	48,003	48,259
	<hr/>	<hr/>
Total operating revenues	1,367,696	1,460,087
	<hr/>	<hr/>
Operating expenses		
Transmission, distribution and services	331,715	307,949
Purchased water	292,110	325,368
General and administrative	323,812	303,201
Depreciation	312,718	296,780
	<hr/>	<hr/>
Total operating expenses	1,260,355	1,233,298
	<hr/>	<hr/>
Operating income	107,341	226,789
	<hr/>	<hr/>
Non-operating revenues (expenses):		
Other revenue	435,295	160,552
Interest income	14,014	23,411
Customer connection fees	7,256	14,514
(Loss) on disposal of assets	3,244	(26,487)
Other expenses	(428,387)	(156,536)
Interest expense	(104,266)	(106,796)
	<hr/>	<hr/>
Total non-operating revenues (expenses)	(72,844)	(91,342)
	<hr/>	<hr/>
Change in net position	34,497	135,447
	<hr/>	<hr/>
Net position at the beginning of the year	8,343,268	8,298,991
	<hr/>	<hr/>
Prior period adjustment - Note 10	-	(91,170)
	<hr/>	<hr/>
Net position at the beginning of the year, as restated	-	8,207,821
	<hr/>	<hr/>
Net position at the end of the year	<u>\$ 8,377,765</u>	<u>\$ 8,343,268</u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,367,696	\$ 1,303,437
Cash payments to suppliers for goods and services	(630,900)	(896,694)
Cash payments to employees and professional contractors for services	<u>(309,310)</u>	<u>16,723</u>
Net cash provided by operating activities	<u>427,486</u>	<u>423,466</u>
Cash flows from non-capital financing activities:		
Other revenue	435,295	160,522
Other expenses	<u>(428,387)</u>	<u>(156,536)</u>
Net cash provided by non-capital financing activities	<u>6,908</u>	<u>3,986</u>
Cash flows from capital and related financing activities:		
New borrowing	144,890	-
Principal payments on bonds and lease obligations	(414,000)	(251,000)
Interest payments on bonds and lease obligations	(104,266)	(106,796)
Construction of fixed assets	-	(140,756)
Equipment purchased	(82,834)	(156,949)
Sale of surplus equipment	3,244	(26,487)
Customer connection fees	<u>7,256</u>	<u>6,594</u>
Net cash used by capital and related financing activities	<u>(445,710)</u>	<u>(675,394)</u>
Cash flows from investing activities:		
Sale (acquisition) of unrestricted investments	(12,649)	58,673
Sale (acquisition) of restricted investments	-	(5,026)
Interest received on cash deposits and investments	<u>14,014</u>	<u>23,411</u>
Net cash provided by investing activities	<u>1,365</u>	<u>77,058</u>

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Increase (decrease) in cash and cash equivalents	(9,951)	(176,280)
Cash and cash equivalents at the beginning of the year	<u>629,303</u>	<u>805,583</u>
Cash and cash equivalents at the end of the year	<u>\$ 619,352</u>	<u>\$ 629,303</u>
Reconciliation of cash and cash equivalents at the end of the year		
Unrestricted cash and cash equivalents	\$ 543,019	\$ 493,102
Restricted cash and cash equivalents	<u>76,333</u>	<u>136,201</u>
Total cash and cash equivalents at the end of the year	<u>\$ 619,352</u>	<u>\$ 629,303</u>
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 107,341	\$ 226,789
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	312,718	296,780
(Increase) decrease in:		
Customer accounts receivable	(4,027)	9,233
Unbilled receivable	4,796	(2,013)
Other receivables	(23,610)	161,734
Inventory	371	(2,475)
Prepaid expenses	(1,928)	(383)
Increase (decrease) in:		
Accounts payable, trade accounts	(2,351)	(1,175)
Accounts payable, construction	21,245	27,393
Accounts payable from restricted funds	-	(291,437)
Accrued liabilities	2,464	86
Accrued compensated absences	223	(1,603)
Accrued interest payable	2,984	(4,898)
Customer deposits	<u>7,260</u>	<u>5,435</u>
Net cash provided by operating activities	<u>\$ 427,486</u>	<u>\$ 423,466</u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Clark County Water District is a "Class B" water district located in Clark County, Kentucky, with principal offices located at 118 Hopkins Lane, Winchester, Kentucky. It was organized in 1967, under Kentucky Revised Statutes, Chapter 74. It is overseen by a five-member commission consisting of a chairman and four commissioners, all appointed by Clark County Fiscal Court. Water is purchased from Winchester Municipal Utilities and Kentucky American Water Company and resold to approximately 2,300 residential and commercial customers.

Basis of Accounting and Measurement Focus

The District is accounted for as a governmental proprietary fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

The District is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water to customers in connection with the District's ongoing operations. The principal operating revenues are charges to customers for water sales and services. Operating expenses include the cost of purchased water and other related service expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues and expenses generally result from contracts with other entities to move existing water lines as required by road and railroad maintenance and improvements.

Property and Equipment

The District capitalizes expenditures for property and equipment of \$1,000 or more. Property and equipment are stated at cost. Donations are recorded at their fair market value at the date of transfer. No donated assets were received in the years ended December 31, 2013 and 2012.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation of exhaustible fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets. Depreciation is provided for financial statement purposes by the straight-line method over the following estimated useful lives:

Lines and storage	50 years
Building	30 years
Pumps and treatment equipment	20 years
Maintenance equipment and vehicles	3-10 years
Office furniture and equipment	3-5 years

Capital Grants and Subsidies

The purchase of property and equipment acquired by grants and subsidies restricted for that purpose are capitalized and the grant or subsidy is recorded as non-operating revenue. These grants and subsidies are not subject to repayment. Certain plant assets have been contributed by customers. These contributions are not subject to repayment.

Receivables

All receivables are reported at their gross value. Estimated un-billed revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. No allowance for doubtful accounts is provided. The District identifies and writes off uncollectible accounts as they occur. Bad debts written off as of December 31, 2013 and 2012 were \$2,771 and \$6,264, respectively.

Vacation, Sick Leave, and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Paid vacation time accrues at the rate of one to three weeks based on the length of employment. Unused vacation time may be carried forward from one year to the next with certain limitations. Other compensated absences do not vest and are recorded as expenditures when they are paid.

Cash and Cash Equivalents

The District includes in cash and cash equivalents, cash on hand and unrestricted cash in checking, money market accounts, federated treasury obligation funds, and unrestricted certificates of deposit with maturities of three months or less.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost or market value on a first-in, first-out basis.

Investments

Investments consist of certificates of deposits with maturity dates of three months or more. Management believes the face value of the certificates approximates their market value. Certificates of deposit in excess of FDIC insurance are collateralized by securities held by the pledging institution.

Interest

Interest is charged to expense as incurred except for interest related to loans used for construction projects, which is capitalized net of interest earned on such borrowed construction funds. Interest capitalization ceases when the construction project is substantially complete. There was no capitalized interest during 2013 and 2012.

Net Position Classifications

The District records restrictions for portions of its net position which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriation. Unrestricted portions of net position indicate amounts which are available for appropriation in future periods. Restrictions in net position are classified as follows:

- **Investment in capital assets, net of related debt** includes the District's capital assets, (net of accumulated depreciation) reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted for Debt Service** includes assets that have been set aside as required by statute or bond covenant for the future payment of the District's Debt.
- **Restricted for Plant Renewal and replacement** includes assets that have been set aside for future additions, repairs or replacement of property, plant or infrastructure.

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS

The District investment policies conform to state statutes. The District deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Investments include certificates of deposit with maturities of one year with banks. Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky Revenue Bonds. The District's deposits and investments are collateralized with securities held by the bank's trust department in the District's name or letter of credit held by a third party in the District's name.

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013 AND 2012

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS (CONTINUED)

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the District’s deposits and/or investments may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2013 and 2012, \$1,844,487 and \$1,448,487 of the District’s total deposits at banks of \$2,390,655 and \$2,416,909, respectively, were exposed to custodial credit risk as follows:

	2013	2012
Uninsured and uncollateralized	\$ 46,168	\$ 116,896
Insured and collateral held by third party in the District's name	500,000	262,053
Insured and collateral held by pledging bank's Trust Department not in the District's name	1,298,319	1,069,538
Total	\$ 1,844,487	\$ 1,448,487

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH

The Bond Resolutions require the creation of various separate deposit accounts, each designated for a specific purpose, as defined in the resolution. A summary of the required accounts and their significant provisions follows:

Revenue Fund

All income to the District is deposited to the Revenue Fund, and then transferred to the other funds as indicated below.

Bond and Interest Sinking Funds and Sinking Fund Reserves

The Bond and Interest Sinking Funds were established to provide sources of funds for the payment of bond principal and interest, currently due. Each month funds equal to the total of (1) one-sixth of the next succeeding semiannual interest payment plus (2) one-twelfth of the next annual bond principal payments are to be transferred to the funds. For the years ended December 31, 2013 and 2012 the required Sinking Fund Reserve balances were \$117,001 and \$117,001, respectively.

Depreciation Reserve Fund

The Depreciation Reserve Fund was established to provide funds for extraordinary repairs, betterments, and expansion. The District is required to deposit \$160 into the fund each month until the accumulated balance equals \$19,200. Funds may be used as needed, but the balance must be restored to \$19,200, as soon as possible, so long as any bonds are outstanding and unpaid.

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013 AND 2012

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH (CONTINUED)

Operation and Maintenance Fund

Monthly sums, sufficient to meet the current expenses of operating and maintaining the system, are to be transferred from the Revenue Fund. The balance shall not be in excess of an amount sufficient to cover anticipated expenditures for a two-month period, which is approximately \$150,000. The balance at December 31, 2013 and 2012 is \$64,389 and \$9,209, respectively.

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Activity for plant and equipment which is capitalized by the District for the year ended December 31, 2013 is summarized below:

	<u>Balance</u> <u>Dec. 31, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>Dec. 31, 2013</u>
Non depreciable assets:				
Land	\$ 58,044	\$ _____	\$ _____	\$ 58,044
Depreciable assets:				
Buildings and improvements	440,645	-	-	440,645
Pumps	84,026	-	-	84,026
Lines and storage	10,443,333	-	-	10,443,333
Meters	900,010	84,559	30,038	954,531
Office equipment	63,472	-	-	63,472
Vehicles	154,337	-	-	154,337
Maintenance equipment	<u>233,641</u>	<u>11,819</u>	<u>48,579</u>	<u>196,881</u>
Total depreciable assets	<u>12,319,464</u>	<u>96,378</u>	<u>78,617</u>	<u>12,337,225</u>
Less accumulated depreciation for:				
Building and improvements	179,539	19,103	30	198,662
Pumps	41,208	1,680	592	42,596
Lines and storage	3,063,257	213,266	-	3,276,523
Meters	265,079	48,255	15,857	297,477
Office equipment	58,390	1,448	-	59,839
Vehicles	111,973	14,128	15	126,086
Maintenance equipment	<u>132,422</u>	<u>14,838</u>	<u>48,579</u>	<u>98,681</u>
Total accum. depreciation	<u>3,851,868</u>	<u>312,718</u>	<u>65,073</u>	<u>4,099,513</u>
Depreciable assets, net	<u>8,467,596</u>	<u>(216,340)</u>	<u>13,544</u>	<u>8,237,712</u>
Total capital assets, net of depreciation	<u>\$ 8,525,640</u>	<u>\$ (216,340)</u>	<u>\$ 13,544</u>	<u>\$ 8,295,756</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

Activity for plant and equipment which is capitalized by the District for the year ended December 31, 2012 is summarized below:

	Balance <u>Dec. 31, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>Dec. 31, 2012</u>
Non depreciable assets:				
Land	\$ 58,044	\$ -	\$ -	\$ 58,044
Depreciable assets:				
Buildings and improvements	440,645	-	-	440,645
Pumps	84,026	-	-	84,026
Lines and storage	9,581,648	933,063	71,378	10,443,333
Meters	851,898	80,452	32,340	900,010
Office equipment	61,364	2,108	-	63,472
Vehicles	154,033	23,609	23,305	154,037
Maintenance equipment	<u>186,167</u>	<u>58,724</u>	<u>11,250</u>	<u>223,641</u>
Total depreciable assets	<u>11,359,781</u>	<u>1,097,956</u>	<u>138,273</u>	<u>12,319,464</u>
Less accumulated depreciation for:				
Buildings and improvements	159,317	20,222	-	179,539
Pumps	39,528	1,680	-	41,208
Lines and storage	2,906,429	203,961	47,133	3,063,257
Meters	246,070	43,159	24,150	265,079
Office equipment	57,049	1,341	-	58,390
Vehicles	120,868	14,410	23,305	111,973
Maintenance equipment	<u>125,630</u>	<u>12,839</u>	<u>6,047</u>	<u>132,422</u>
Total accum. depreciation	<u>3,654,891</u>	<u>297,612</u>	<u>100,635</u>	<u>3,851,868</u>
Depreciable assets net	<u>7,704,890</u>	<u>800,344</u>	<u>37,638</u>	<u>8,467,596</u>
Construction in progress	<u>748,439</u>	<u>-</u>	<u>748,439</u>	<u>-</u>
Total capital assets, net of depreciation	<u>\$ 8,511,373</u>	<u>\$ 800,344</u>	<u>\$ 786,077</u>	<u>\$ 8,525,640</u>

NOTE 5 – LONG TERM DEBT AND LEASES

The District issues revenue bonds to finance improvements and extensions to water lines. During 2013 the District issued new bonds Series 2013C for \$130,000 through the Kentucky Rural Water Finance Corporation. The District incurred \$4,950 in issuance costs. The bonds sold for a premium of \$15,648. Interest on the bonds ranges from 2.3% to 4.8% over the life of the bonds. The net present value of the cashflow savings as a result of refinancing is \$15,129 over the life of the new bonds.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

At December 31, 2013, East Clark County Water District had the following long term debt and leases outstanding:

<u>Description</u>	<u>Balance</u> <u>Dec. 31, 2012</u>	<u>New</u> <u>Issues</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2013</u>	<u>Due within</u> <u>one year</u>
East Clark County Water District Waterworks Bonds, Series of 1978, with interest of 5% payable January 1 and July 1	82,000	-	15,000	67,000	16,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2011C Bonds, with interest of 2.2% to 4.35% payable January 1 and July 1	700,000	-	30,000	670,000	30,000
Kentucky Rural Water Finance Corporation Multi Modal Public Projects Revenue Bonds, Series 2001G with interest of 1.3% to 3.0% payable January 1 and July 1	30,000	-	30,000	-	-
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2012C Bonds, with interest of 2.15% to 4.275% payable February 1 and August 1	505,000	-	20,000	485,000	20,000
East Clark County Water District Waterworks Refunding Bonds, Series 2002, with interest of 3.15% to 5.15% payable January 1 and July 1	149,000	-	149,000	-	-
East Clark County Water District Waterworks Refunding Bonds, Series 2013C, with interest of 2.3% to 4.8% payable January 1 and July 1	-	130,000	-	130,000	10,000
	<u>1,466,000</u>	<u>130,000</u>	<u>244,000</u>	<u>1,352,000</u>	<u>76,000</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

At December 31, 2012, East Clark County Water District had the following long term debt and leases outstanding:

Bonds

<u>Description</u>	<u>Balance</u> <u>Dec. 31, 2011</u>	<u>New</u> <u>Issues</u>	<u>Principal</u> <u>-</u> <u>Payment</u>	<u>Balance</u> <u>Dec. 31, 2012</u>	<u>Due within</u> <u>one year</u>
East Clark County Water District Waterworks Bonds, Series of 1978, with interest of 5% payable January 1 and July 1	96,000	-	14,000	82,000	15,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2011C Bonds, with interest of 2.2% to 4.35% payable January 1 and July 1	56,000	-	26,000	30,000	30,000
Kentucky Rural Water Finance Corporation Multi Modal Public Projects Revenue Bonds, Series 2001G with interest of 1.3% to 3.0% payable January 1 and July 1	725,000	-	25,000	700,000	30,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2012C Bonds, with interest of 2.15% to 4.275% payable February 1 and August 1	520,000	-	15,000	505,000	20,000
East Clark County Water District Waterworks Refunding Bonds, Series 2002, with interest of 3.15% to 5.15% payable January 1 and July 1	<u>157,000</u>	<u>-</u>	<u>8,000</u>	<u>149,000</u>	<u>9,000</u>
	<u><u>1,554,000</u></u>	<u><u>-</u></u>	<u><u>88,000</u></u>	<u><u>1,466,000</u></u>	<u><u>104,000</u></u>

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013 AND 2012

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

The debt service on the above bonds is as follows:

Due the year ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 76,000	\$ 52,322	\$ 128,322
2015	77,000	49,763	126,763
2016	82,000	47,035	129,035
2017	84,000	44,054	128,054
2018	65,000	40,213	105,213
2019-2023	375,000	162,865	537,865
2024-2028	385,000	86,996	471,996
2029-2031	<u>210,000</u>	<u>13,596</u>	<u>223,596</u>
	<u>\$ 1,352,000</u>	<u>\$ 263,456</u>	<u>\$ 1,233,456</u>

Capital leases

The District is obligated under financing arrangements accounted for as capital leases. The cost and accumulated depreciation of assets acquired under these arrangements is included with other owned assets disclosed in Note 4 - Property, Plant, and Equipment. Capital lease obligations and changes for 2013 are as follows:

	<u>Balance December 31, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31, 2013</u>	<u>Due in one Year</u>
KACO #1	\$ 125,000	\$ -	\$ 29,000	\$ 96,000	\$ 31,000
KACO #2	488,000	-	67,000	381,000	70,000
KACO #3	<u>601,000</u>	<u>-</u>	<u>74,000</u>	<u>527,000</u>	<u>77,000</u>
	<u>\$ 1,174,000</u>	<u>\$ -</u>	<u>\$ 170,000</u>	<u>\$ 1,004,000</u>	<u>\$ 178,000</u>

Capital lease obligations and changes for 2012 is as follows:

	<u>Balance December 31, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31, 2012</u>	<u>Due in one Year</u>
KACO #1	\$ 153,000	\$ -	\$ 28,000	\$ 125,000	\$ 29,000
KACO #2	513,000	-	65,000	448,000	67,000
KACO #3	<u>671,000</u>	<u>-</u>	<u>70,000</u>	<u>601,000</u>	<u>74,000</u>
	<u>\$ 1,337,000</u>	<u>\$ -</u>	<u>\$ 163,000</u>	<u>\$ 1,174,000</u>	<u>\$ 170,000</u>

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013 AND 2012

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

The following is a schedule of future minimum lease payments, together with the net present value of the minimum lease payments at December 31, 2013:

<u>Year ending December 31,</u>	<u>Lease Payments</u>
2015	218,785
2016	217,181
2017	183,071
2018	183,057
Thereafter	_____
Total minimum lease payments	1,123,009
Less:	
Amount representing interest at the District's incremental borrowing rate	(19,009)
	<u>\$ 1,004,000</u>

NOTE 6 – INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and customers; or acts of God. The District insures against these risks through insurance policies obtained from commercial vendors. The District has pooled its risk for workers compensation insurance. The District pays an annual premium for insurance coverage and is liable for additional premium assessments as determined by the pool. At December 31, 2013 and 2012, no additional premium assessment had been made. Other insurable risks are covered by policies with conventional insurance companies.

NOTE 7 - RETIREMENT PLAN

All employees are covered under the County Employee's Retirement System administered by the Board of Trustees of Kentucky Retirement Systems under the authority of KRS Section 61.645 (hereafter the "Plan"). Funding for the Plan is provided through the employee's contribution of 5% and the District's contribution of 16.93% of the employee's total compensation subject to contribution. The cost for the Plan charged to operations for the years ended December 31, 2013, 2012, and 2011 was \$60,410, \$56,256, and \$52,584, respectively. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling 1-502-564-4646.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

NOTE 8 - PURCHASED WATER

The District entered into a written agreement to purchase all of its water from Winchester Municipal Utilities (WMU). The term of the contract is for twenty years ending July 15, 2019 with an option to renew for an additional period of twenty years. The District purchases water at \$1.72 per 100 cubic feet of water. This rate is subject to periodic increases by WMU. With the approval of the Public Service Commission, the District may pass these rate increases along to its customers. Water is delivered to the District by meters maintained by WMU.

NOTE 9 – SUBSEQUENT EVENT

The district has evaluated subsequent events through April 7, 2013, that date which the financial statements were available to be issued.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

The beginning net position as of January 1, 2012 has been restated to reflect the implantation of Governmental Accounting Standards Board (GASB) Statement No. 65 titled “Items previously Reported as Assets and Liabilities”. The result of the implementation was a decrease of beginning net position as of January 1, 2012.

SUPPLEMENTAL SCHEDULES

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 292,110	\$ -	\$ -	\$ 292,110
Depreciation	-	-	-	312,718	312,718
Salaries	147,619	-	113,124	-	260,743
Employee benefits	66,910	-	51,275	-	118,185
Supplies	37,923	-	10,549	-	48,472
Repairs and maintenance	4,333	-	12,148	-	16,481
Outside services	2,478	-	5,917	-	8,395
Technology	6,896	-	-	-	6,896
Commissioners' salaries	-	-	30,085	-	30,085
Payroll tax expense	15,307	-	11,731	-	27,038
Professional fees	-	-	18,482	-	18,482
Utilities	17,750	-	6,846	-	24,596
Truck expense	23,551	-	1,953	-	25,504
Equipment rental	331	-	-	-	331
Insurance	-	-	23,816	-	23,816
Postage	-	-	13,899	-	13,899
Bad debts	-	-	2,771	-	2,771
Miscellaneous	-	-	4,561	-	4,561
Telephone	5,390	-	2,247	-	7,637
Dues and subscriptions	-	-	1,317	-	1,317
Loading station expense	1,544	-	-	-	1,544
Employee training and seminars	-	-	955	-	955
PSC assessment	-	-	2,606	-	2,606
Uniforms	-	-	2,055	-	2,055
Lab testing	4,323	-	-	-	4,323
Travel and meals expense	-	-	1,507	-	1,507
Bond insurance costs	-	-	5,968	-	5,968
Capitalized overhead allocation	(2,640)	-	-	-	(2,640)
	<u>\$ 331,715</u>	<u>\$ 292,110</u>	<u>\$ 323,812</u>	<u>\$ 312,718</u>	<u>\$ 1,260,355</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 325,368	\$ -	\$ -	\$ 325,368
Depreciation	-	-	-	296,780	296,780
Salaries	138,387	-	109,383	-	247,770
Employee benefits	58,929	-	46,578	-	105,507
Supplies	34,985	-	13,206	-	48,191
Repairs and maintenance	4,252	-	4,984	-	9,236
Outside services	8,224	-	4,017	-	12,241
Technology	3,356	-	-	-	3,356
Commissioners' salaries	-	-	30,000	-	30,000
Payroll tax expense	12,213	-	9,653	-	21,866
Professional fees	-	-	18,612	-	18,612
Utilities	20,719	-	6,246	-	26,965
Truck expense	24,246	-	2,419	-	26,665
Equipment rental	2,287	-	-	-	2,287
Insurance	-	-	22,720	-	22,720
Postage	-	-	12,703	-	12,703
Bad debts	-	-	6,264	-	6,264
Miscellaneous	-	-	-	-	-
Telephone	2,549	-	2,292	-	4,841
Dues and subscriptions	-	-	1,387	-	1,387
Loading station expense	1,501	-	-	-	1,501
Employee training and seminars	-	-	6,530	-	6,530
PSC assessment	-	-	2,456	-	2,456
Uniforms	-	-	3,309	-	3,309
Lab testing	1,581	-	-	-	1,581
Travel and meals expense	-	-	442	-	442
Capitalized overhead allocation	(5,280)	-	-	-	(5,280)
	<u>\$ 307,949</u>	<u>\$ 325,368</u>	<u>\$ 303,201</u>	<u>\$ 296,780</u>	<u>\$ 1,233,298</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013 Budget	2013 Actual	Favorable (Unfavorable)	2012 Budget	2012 Actual	Favorable (Unfavorable)
Operating revenues:						
Water sales	\$ 1,367,500	\$ 1,319,693	\$ (47,807)	\$ 1,404,500	\$ 1,411,828	\$ 7,328
Other operating income	44,000	48,003	4,003	-	48,259	48,259
Total operating revenues	<u>1,411,500</u>	<u>1,367,696</u>	<u>(43,804)</u>	<u>1,404,500</u>	<u>1,460,087</u>	<u>55,587</u>
Operating expenses:						
Operation and maintenance	942,500	920,599	21,901	943,500	914,652	28,848
Depreciation and amortization	330,000	312,718	17,282	285,000	296,780	(11,780)
Taxes	26,200	27,038	(838)	28,400	21,866	6,534
Total operating expenses	<u>1,298,700</u>	<u>1,260,355</u>	<u>38,345</u>	<u>1,256,900</u>	<u>1,233,298</u>	<u>23,602</u>
Operating income	<u>112,800</u>	<u>107,341</u>	<u>(5,459)</u>	<u>147,600</u>	<u>226,789</u>	<u>79,189</u>
Non-operating revenues (expenses):						
Other revenue	636,644	435,295	(201,349)	-	160,552	160,552
Interest income	13,125	14,014	889	17,500	23,411	5,911
Sale/disposal of surplus equipment	-	3,244	3,244	-	(26,487)	(26,487)
Other expenses	(637,094)	(428,387)	208,707	(200,000)	(156,536)	43,464
State grants and customer connection fees	-	7,256	7,256	12,000	14,514	2,514
Interest expense	(103,000)	(104,266)	(1,266)	(114,500)	(106,796)	7,704
Total non-operating revenues (expenses)	<u>(90,325)</u>	<u>(72,844)</u>	<u>17,481</u>	<u>(285,000)</u>	<u>(91,342)</u>	<u>193,658</u>
Change in net position	<u>\$ 22,475</u>	<u>\$ 34,497</u>	<u>\$ 12,022</u>	<u>\$ (137,400)</u>	<u>\$ 135,447</u>	<u>\$ 272,847</u>

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
And Other Matters based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Commissioners
East Clark County Water District
Winchester, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund the East Clark County Water District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the East Clark County Water District's basic financial statements and have issued our report thereon dated April 7, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist were not identified. However, as described in the accompanying schedule or findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2013-1 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the East Clark County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

East Clark County Water District Responses to Findings

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

Purpose of this Report

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

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
April 7, 2014

EAST CLARK COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013

A. Findings – Financial Statement Audit

2013-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The District was unaware of changes in Generally Accepted Accounting Principles applicable to their financial presentation.

Effect:

As a result of audit procedures, material adjustments were made requiring adjustments to the financial statements prepared by the District.

Views of responsible officials and planned corrective actions:

We will enhance our internal procedures to ensure we have a higher level of awareness in regard to appropriate financial statement presentation applicable to the District. We will increase communication with the audit firm during our fiscal year. We will also explore options to increase awareness through educational opportunities.