

EAST LAUREL WATER DISTRICT
INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012

TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statements of Net Position	6
Statements of Revenues, Expenses, and Changes in Net Position.....	7
Statements of Cash Flows.....	8
Notes to Basic Financial Statements	9
Internal Control and Compliance	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	19

INDEPENDENT AUDITORS' REPORT

To the Commissioners
East Laurel Water District
London, Kentucky

We have audited the accompanying financial statements of the business-type activities of East Laurel 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.

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 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 East Laurel Water District as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, 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 on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014 on our consideration of the East Laurel 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 the 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 East Laurel Water District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
Certified Public Accountants
Corbin, Kentucky

March 20, 2014

EAST LAUREL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Years ended December 31, 2013 and 2012

This discussion and analysis is intended to be an easily readable analysis of the East Laurel Water District's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements and notes that follow. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS

- In 2013, the District's net position decreased by \$106,149, or 2.24%, compared to a decrease in 2012 of \$66,554 or 1.38%.
- In 2013, sales of water decreased by \$140,252 or 5.97%. In 2012, sales increased by \$297,772 or 14.52%.
- Operating expenses decreased by \$78,775 or 3.30% in 2013 compared to an increase of \$289,700, or 13.82% in 2012.
- Additions to capital assets in 2013 amounted to \$58,959. In 2012, additions to capital assets were \$122,114.
- Principal payments on long-term debt amounted to \$73,500 in 2013, compared to \$71,000 in 2012.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of the management's discussion and analysis and the basic financial statements. The financial statements include notes that explain information included in the basic financial statements.

FINANCIAL STATEMENTS

The financial statements report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The financial statements also include a statement of cash flows, which presents sources and uses of cash and changes in cash balances during the fiscal year.

EAST LAUREL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Years ended December 31, 2013 and 2012

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

NET POSITION

A summary of the District's statement of net position as of December 31, 2013 and 2012 is presented below:

	2013 Amount	2012 Amount	Net dollar Change	Net percentage Change
Current and other assets	\$ 1,177,498	\$ 1,212,446	\$ (34,948)	-2.88%
Noncurrent assets	174,444	165,463	8,981	5.43%
Capital assets,				
net of accumulated depreciation	5,134,903	5,296,085	(161,182)	-3.04%
Total Assets	6,486,845	6,673,994	(187,149)	-2.80%
Deferred outflow of resources	338,944	350,001	(11,057)	-3.16%
Total Deferred Outflow of Resources	338,944	350,001	(11,057)	-3.16%
Current liabilities	305,976	320,654	(14,678)	-4.58%
Noncurrent liabilities	1,886,776	1,964,155	(77,379)	-3.94%
Total Liabilities	2,192,752	2,284,809	(92,057)	-4.03%
Net investment in capital assets	3,187,576	3,275,336	(87,760)	-2.68%
Restricted net positions	174,444	165,463	8,981	5.43%
Unrestricted (deficit) net positions	1,271,017	1,298,387	(27,370)	-2.11%
Total Net Position	\$ 4,633,037	\$ 4,739,186	\$ (106,149)	-2.24%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

A summary of the District's statement of revenues, expenses and changes in net position for the year ended December 31, 2013 and 2012 is presented below:

	2013 Amount	2012 Amount	Net dollar Change	Net percentage Change
Operating revenue	\$ 2,305,352	\$ 2,437,324	\$ (131,972)	-5.41%
Nonoperating revenue	1,474	1,963	(489)	-24.91%
Total revenue	2,306,826	2,439,287	(132,461)	-5.43%
Depreciation expense	220,170	220,893	(723)	-0.33%
Other operating expense	2,087,668	2,165,720	(78,052)	-3.60%
Nonoperating expense	105,137	118,892	(13,755)	-11.57%
Total expense	2,412,975	2,505,505	(92,530)	-3.69%
Changes in net position	(106,149)	(66,218)	(39,931)	60.30%
Net position, beginning	4,739,185	4,805,403	(66,218)	-1.38%
Net position, ending	\$ 4,633,036	\$ 4,739,185	\$ (106,149)	-2.24%

**EAST LAUREL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Years ended December 31, 2013 and 2012

CAPITAL ASSETS

On December 31, 2013, the District's investment in capital assets, net of depreciation, totaled \$5,134,903, which is a decrease of \$161,182, or 3.04%, over the capital asset balance of \$5,296,085 at December 31, 2012.

LONG-TERM DEBT

As of December 31, 2013, the District had long-term debt of \$1,948,500 compared to \$2,021,500 at December 31, 2012, including current portion. During the year ended December 31, 2013, the District paid \$73,500 of principal payments on the long-term debt compared to \$71,000 in 2012.

CONTACT INFORMATION

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning this report or request for additional information should be addressed to the Office Manager, Dewayne Lewis, at East Laurel Water District, London, Kentucky, 40741 or by calling (606) 878-9420.

EAST LAUREL WATER DISTRICT
STATEMENTS OF NET POSTION
December 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 176,523	\$ 209,091
Investments	624,746	622,171
Accounts receivable, less allowance for doubtful accounts	223,665	225,226
Unbilled accounts receivable	151,219	151,219
Interest receivable	470	1,780
Prepaid expense	876	2,960
Total current assets	<u>1,177,498</u>	<u>1,212,446</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>174,444</u>	<u>165,463</u>
Capital Assets		
Nondepreciable capital assets		
Land and land structures		
Total nondepreciable capital assets	<u>32,001</u>	<u>26,162</u>
Depreciable Capital Assets		
Source of supply and pumping	179,037	179,037
Intangible	6,608	6,608
Pumping plant	9,385	9,385
Transmission and distribution	9,081,446	9,028,296
General plant	34,245	34,245
Less accumulated depreciation	<u>(4,207,819)</u>	<u>(3,987,649)</u>
Total depreciable capital assets	<u>5,102,902</u>	<u>5,269,923</u>
Total capital assets (net of depreciation)	<u>5,134,903</u>	<u>5,296,085</u>
Total noncurrent assets	<u>5,309,347</u>	<u>5,461,548</u>
Total assets	<u>\$ 6,486,844</u>	<u>\$ 6,673,994</u>

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

EAST LAUREL WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2013 and 2012

DEFERRED OUTFLOW OF RESOURCES

	<u>2013</u>	<u>2012</u>
Deferred savings from refunding bonds	\$ 1,868	\$ 2,076
Other deferred costs	337,075	347,925
Total deferred outflow of resources	<u>338,943</u>	<u>350,001</u>
Total assets and deferred outflow of resources	<u>\$ 6,825,788</u>	<u>\$ 7,023,995</u>

LIABILITIES

Current liabilities

Accounts payable	\$ 177,763	\$ 193,313
Accrued expenses	5,659	5,821
Accrued interest	45,053	48,019
Current portion of long-term debt	77,500	73,500
Total current liabilities	<u>305,976</u>	<u>320,654</u>

Noncurrent liabilities

Customer deposits	15,080	14,830
Unamortized premium on debt	1,196	1,325
Long-term debt	1,870,500	1,948,000
Total noncurrent liabilities	<u>1,886,776</u>	<u>1,964,155</u>

Total liabilities	<u>2,192,752</u>	<u>2,284,809</u>
-------------------	------------------	------------------

NET POSITION

Invested in capital assets net of related debt	3,187,576	3,275,336
Restricted for :		
Debt service	161,266	152,262
Other purposes	13,178	13,201
Unrestricted	1,271,016	1,298,387
Total net position	<u>\$ 4,633,036</u>	<u>\$ 4,739,185</u>

EAST LAUREL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Water sales	\$ 2,208,293	\$ 2,348,544
Tap-on fees	26,640	29,150
Other	<u>70,420</u>	<u>59,629</u>
Total operating revenues	<u>2,305,352</u>	<u>2,437,324</u>
Operating expenses		
Purchased water and power	1,287,516	1,338,487
Water treatment	29,064	25,014
Transmission and distribution	376,919	395,539
Administration of customer accounts	296,015	302,952
Administration and general	98,155	103,728
Depreciation	<u>220,170</u>	<u>220,893</u>
Total operating expenses	<u>2,307,838</u>	<u>2,386,613</u>
Operating income (loss)	<u>(2,485)</u>	<u>50,710</u>
Nonoperating revenues (expenses)		
Interest income	1,474	1,963
Miscellaneous	(5,491)	(13,217)
Interest expense:		
Interest on long-term debt	(88,718)	(94,746)
Amortization	<u>(10,928)</u>	<u>(10,929)</u>
Total nonoperating revenues (expenses)	<u>(103,663)</u>	<u>(116,928)</u>
Change in net position	(106,149)	(66,218)
Net position as of January 1, 2013	<u>4,739,185</u>	<u>4,809,514</u>
Prior Period Restatement (See note 11)		<u>(4,111)</u>
Net position as of December 31, 2013	<u>\$ 4,633,036</u>	<u>\$ 4,739,185</u>

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

EAST LAUREL 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		
Receipts from customers	\$ 2,306,914	\$ 2,432,008
Payment for goods and service	<u>(2,100,884)</u>	<u>(2,138,036)</u>
Net cash used in operating activities	<u>206,030</u>	<u>293,972</u>
Cash flows from capital and related activities		
Additions to capital assets	(58,990)	(122,114)
Principal payments on debt	(73,500)	(71,000)
Interest paid on debt	(91,685)	(94,911)
Miscellaneous nonoperating expense	<u>(5,652)</u>	<u>(13,216)</u>
Cash provided (used) in capital and related activities	<u>(229,827)</u>	<u>(301,241)</u>
Cash flows from investing activities		
Interest received on investments	<u>209</u>	<u>250</u>
Cash provided (used) in investing activities	<u>209</u>	<u>250</u>
Net increase in cash and cash equivalents	(23,587)	(7,019)
Cash and cash equivalents as of January 1, 2012	<u>374,554</u>	<u>381,573</u>
Cash and cash equivalents as of December 31, 2013	<u>\$ 350,967</u>	<u>\$ 374,554</u>
Reconciliation of change in net position to net cash used in operating activities		
Adjustments to reconcile change in net position to net cash used in operating activities:		
Operating income	\$ (2,485)	\$ 50,710
Depreciation	220,170	220,893
Changes in assets and liabilities:		
(Increase) Decrease in customer and other accounts receivable	1,561	(6,326)
Increase (Decrease) in customer and other accounts payable	(15,550)	27,685
Decrease (Increase) in prepaid expenses	2,084	(180)
Increase in customer deposits	<u>250</u>	<u>1,190</u>
Net cash provided by operating activities	<u>206,030</u>	<u>293,972</u>
Supplemental disclosures		
Interest paid	<u>88,718</u>	<u>94,746</u>
Reconciliation of Cash at End of Year		
Cash and cash equivalents	176,523	209,091
Restricted cash and cash equivalents	<u>174,444</u>	<u>165,463</u>
Total Cash at End of Year	<u>\$ 350,967</u>	<u>\$ 374,554</u>

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

EAST LAUREL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Laurel Water District, of Laurel County, Kentucky (the District) was created in 1969 under Chapter 74 of the Kentucky Revised Statutes and is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. The District is governed by a three person board of Commissioners, which is appointed by the Laurel County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

East Laurel Water District is a rural water utility system whose purpose is to establish, develop, and operate a water supply and distribution system for its members and customers in the eastern portion of Laurel County, Kentucky. The District's primary source of revenue is from water sales to its members and customers, including public bodies and local businesses in its service area.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. In addition, the District applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

The statement of net position and statement of revenues, expenses and changes in net position display information about the District as a whole. These statements include all funds of the District. The statements distinguish between governmental and business-type activities. The District does not have any governmental activities.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**EAST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The District considers all highly liquid investments (including restricted cash and investments), with maturities of 90 days or less to be cash equivalents. This includes bank certificates of deposit and demand checking accounts.

Investments

The District is authorized by state statute to invest in: 1) obligations of the United States and of its agencies and instrumentalities; 2) bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; 3) shares of any savings and loan insured by an agency of the government of the United States up to the amount so insured; 4) interest bearing deposits in nationally chartered or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in larger amounts provided such bank shall pledge, as security, obligations of the United States government, its agencies and instrumentalities.

The District's investments include certificates of deposits with maturity dates of three months or more. Certificates of deposits in excess of FDIC insurance are collateralized by securities held by the pledging bank.

Accounts Receivable

Accounts receivable arise as services are rendered for which collections have not been realized and are carried net of a provision for doubtful accounts. The provision for doubtful accounts is estimated using a percentage of accounts more than 90 days past due. At December 31, 2013, and 2012, the provision for doubtful accounts was \$3,048 and \$3,048, respectively.

Unbilled Receivables

The District estimated unbilled revenues from water sales, on a pro rata basis, at the end of each fiscal year. The estimated amount is based on amounts billed during the month following the close of the fiscal year.

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

**EAST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, and equipment that have a useful life of more than one reporting period based on the District's capitalization policy. The cost of additions to the utility plant and major replacements of retired property is capitalized, and the cost of repairs, maintenance, and minor replacements is recorded as expense. By District policy, capital assets are defined as assets with a cost of \$1,000 or more and an estimated useful life in excess of one year. Cost includes direct labor, outside services, materials and transportation employee fringe benefits, and overhead. Interest incurred during construction is capitalized.

The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from disposal is credited or recorded in the non-operating section of the statements of revenues, expenses and changes in net assets. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The range of useful lives of assets is as follows:

<u>Assets Classification</u>	<u>Range of Lives</u>
Intangible	40 years
Transmission and distribution mains	50 years
Structures and improvements	50 years
Pumping and water treatment equipment	25 years
Meters, hydrants and services	20 years
Other equipment	5-10 years

Accounts Payable

Accounts payable represent expenses incurred in the current year to be paid in the subsequent year. The majority of the District's accounts payable are to vendors or for the purchase of water.

Long-Term Debt

Long-term debt is reported as liabilities. Loan discount or premium is amortized over the term of the respective loans outstanding using the straight-line method. At December 31, 2013 amortized value of loan premium was \$1,196.

Other Deferred Costs

During 1994, East Laurel Water District transferred \$542,500 to Wood Creek Water District for a tap-on fee in accordance with the Water Purchase Contract which was revised on June 1, 1994. The fee is being amortized over a 50-year period as instructed by the Public Service

EAST LAUREL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

Commission and is recorded by the District as other deferred costs. At December 31, 2013 amortized value of other deferred costs was \$337,075.

Customer Deposits

The District collects and holds in escrow a \$60 deposit from customers to insure collection of its water charges. Interest at an annual rate of 1% is paid on these deposits.

Use of Estimates

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

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net Investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets and any unamortized debt cost or premium.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

NOTE 2 – RESTRICTED CASH

The District includes all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2013, and 2012, restricted cash amounted to \$174,444 and \$165,463, respectively. This includes restrictions for customer deposits of \$13,177 and \$13,201 and restrictions for debt service of \$161,266 and \$152,262, respectively.

**EAST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2013 and 2012

NOTE 3 – INVESTMENTS – INTEREST RATE RISK

According to KRS 91A.060, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The District classifies only certificates of deposit as investments and does not consider interest rate risk to be significant.

NOTE 4 – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits 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, the District's bank balances were \$957,521 and \$978,494 respectively, and of that amount, \$436,986 and \$408,832 were exposed to custodial credit risk. In accordance with Kentucky Revised Statute (KRS) 91A.060, deposits are to be collateralized to the extent uninsured by FDIC. According to KRS 41.240(4), it shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The District's deposits were fully insured or collateralized with securities held by an agent of the District in the District's name at December 31, 2013, and 2012.

NOTE 5 – CUSTOMER AND OTHER ACCOUNTS RECEIVABLE

At December 31, 2013, customer and other accounts receivable are as follows:

Due from consumers sale of	
water	\$ 226,713
Allowance for doubtful accounts	(3,048)
	<hr/>
	\$ 223,665
	<hr/>

This does not include unbilled receivables of \$151,219.

Continued on the next page

EAST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 6 – CAPITAL ASSETS

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

	<u>Balance</u>			<u>Additions</u>		<u>Deductions</u>		<u>December 31, 2013</u>
		<u>December 31, 2012</u>						
Land and Improvements	\$	26,161	\$	5,840	\$	-	\$	32,001
Intangible		6,608		-		-		6,608
Source of Supply and Pumping		179,037		-		-		179,037
Water Treatment Plant		9,385		-		-		9,385
Transmision and Distribution Plant		9,028,296		53,149		-		9,081,446
General Plant		34,245		-		-		34,245
Total Capital Assets		<u>9,283,732</u>		<u>58,989</u>		<u>-</u>		<u>9,342,722</u>
Less: Accumulated depreciation								
Intangible		6,608		-		-		6,608
Source of supply and pumping		124,150		6,667		-		130,817
Pumping plant		6,928		188		-		7,116
Transmission and distribution plant		3,833,351		210,335		-		4,043,686
General plant		16,611		2,981		-		19,593
Total accumulated depreciation		<u>3,987,649</u>		<u>220,170</u>		<u>-</u>		<u>4,207,819</u>
Total Capital Assets, Net	\$	<u>5,296,085</u>	\$	<u>(161,181)</u>	\$	<u>-</u>	\$	<u>5,134,903</u>

	<u>Balance</u>					
	<u>December 31, 2011</u>		<u>Additions</u>		<u>Deductions</u>	<u>December 31, 2012</u>
Land and Improvements	\$ 26,161	\$	-	\$	-	\$ 26,161
Intangible	6,608		-		-	6,608
Source of Supply and Pumping	179,037		-		-	179,037
Water Treatment Plant	8,035		1,350		-	9,385
Transmision and Distribution Plant	8,907,532		120,764		-	9,028,296
General Plant	34,245		-		-	34,245
Total Capital Assets	<u>9,161,618</u>		<u>122,114</u>		<u>-</u>	<u>9,283,732</u>
Less: Accumulated depreciation						
Intangible	6,608		-		-	6,608
Source of supply and pumping	117,483		6,667		-	124,150
Pumping plant	6,754		174		-	6,928
Transmission and distribution plant	3,622,597		210,754		-	3,833,351
General plant	13,313		3,298		-	16,611
Total accumulated depreciation	<u>3,766,756</u>		<u>220,893</u>		<u>-</u>	<u>3,987,649</u>
Total Capital Assets, Net	\$ <u>5,394,863</u>	\$	<u>(98,779)</u>	\$	<u>-</u>	\$ <u>5,296,085</u>

EAST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 7 – LONG-TERM DEBT

The District's long-term debt consists of bonds payable to Rural Development (RD) and Kentucky Rural Water Finance Corporation (KRWFC), which were obtained for various acquisitions of plant and equipment and to refinance a prior issue. The bonds mature annually in varying series over the period 2017 to 2038. A summary of the bonds is presented below:

RURAL DEVELOPMENT								
<u>Date of Issue</u>	<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>12/31/12 Outstanding Balance</u>	<u>Retirements</u>	<u>12/31/13 Outstanding Balance</u>	<u>Due Within One Year</u>
10/14/1977	91-03	\$ 315,000	1/1/2017	5.00%	\$ 128,000	\$ 23,000	\$ 105,000	\$ 24,000
11/5/1993	91-08	537,000	1/1/2033	5.00%	408,000	11,000	397,000	12,000
9/3/1999	91-10	1,502,500	1/1/2038	4.50%	1,260,500	26,500	1,234,000	27,500
Total RD Bonds Payable					<u>\$ 1,796,500</u>	<u>\$ 60,500</u>	<u>\$ 1,736,000</u>	<u>\$ 63,500</u>
KRWFC								
3/25/2003	2003A	\$ 318,000	1/1/2025	4.12-4.75%	\$ 225,000	\$ 13,000	\$ 212,000	14,000
Total KRWFC Bonds Payable					<u>\$ 225,000</u>	<u>\$ 13,000</u>	<u>\$ 212,000</u>	<u>\$ 14,000</u>
Total Outstanding Debt					<u>\$ 2,021,500</u>	<u>\$ 73,500</u>	<u>\$ 1,948,000</u>	

Future bond principal and interest payment amounts are as follows:

See Table on Next Page

EAST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 7 – LONG-TERM DEBT – (continued)

YEAR	LOCAL		TOTAL
	PRINCIPAL	INTEREST	
2014	\$ 77,500	\$ 86,344	\$ 163,844
2015	83,000	82,662	165,662
2016	85,000	78,807	163,807
2017	89,500	74,802	164,302
2018	64,000	71,329	135,329
2019	66,500	68,424	134,924
2020	70,000	65,365	135,365
2021	73,500	62,137	135,637
2022	76,500	58,739	135,239
2023	80,000	55,170	135,170
2024	83,000	51,452	134,452
2025	88,000	47,538	135,538
2026	68,000	43,988	111,988
2027	72,000	40,838	112,838
2028	75,500	37,519	113,019
2029	78,500	34,054	112,554
2030	82,000	30,443	112,443
2031	86,500	26,651	113,151
2032	90,000	22,653	112,653
2033	93,000	18,536	111,536
2034	66,500	14,974	81,474
2035	70,000	11,903	81,903
2036	73,000	8,685	81,685
2037	76,000	5,333	81,333
2038	80,500	1,811	82,311
	<u>\$ 1,948,000</u>	<u>\$ 1,100,153</u>	<u>\$ 3,048,153</u>

NOTE 8 – SERVICES PROVIDED TO OTHER WATER DISTRICTS

East Laurel Water District has no employed personnel with the exception of its board members. The District obtains all maintenance, construction (including materials), and office services through contractual agreements with Wood Creek Water District. Wood Creek Water District bills, at cost, East Laurel Water District for services and materials on a monthly basis. East Laurel Water District also purchases water for resale from Wood Creek Water District.

EAST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 8 – SERVICES PROVIDED TO OTHER WATER DISTRICTS – (continued)

At December 31, 2013 and 2012, the District had accounts payable to Wood Creek Water District as follows:

	<u>2013</u>	<u>2012</u>
<u>Woodcreek Water District</u>		
Accounts Receivable	\$ 163,831	\$ 178,751
Accounts Receivable - Wastewater	6,982	7,700
	<u>\$ 170,813</u>	<u>\$ 186,451</u>

Amounts paid to Wood Creek Water District for purchased water and for materials and services provided to East Laurel Water District are as follows:

	<u>2013</u>	<u>2012</u>
<u>Woodcreek Water District</u>		
Purchased water	\$ 1,236,101	\$ 1,285,292
Materials, labor, and other	765,767	801,165
	<u>\$ 2,001,868</u>	<u>\$ 2,086,457</u>

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. The insurance coverage is acquired through Wood Creek Water District which includes coverage for Wood Creek Water District, East Laurel Water District, and West Laurel Water Association, Incorporated. The District pays for and is entitled to its respective share of coverage. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

NOTE 10 – SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through March 20, 2014, the date which the financial statements were available to be issued. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

NOTE 11 – IMPLEMENTATION OF NEW GASB STANDARD

The District has implemented GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities*, for the year ending December 31, 2013. This standard describes which assets and liabilities (previously reported) are appropriately reported in the new financial statement elements, deferred outflows of resources and deferred inflows of resources, required by GASB No. 63 and also identifies certain items previously reported as assets and liabilities that the GASB determined should be recognized as revenues, expenses, or expenditures when incurred and not reported in statements of net position/balance sheets at all.

EAST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2013 and 2012

NOTE 11 – IMPLEMENTATION OF NEW GASB STANDARD –(continued)

This was retroactively implemented on the financial statement presentation of December 31, 2012 as well as the current audit period.

The noticeable changes to this audit include the removal of Bond Issue Costs as an asset. Bond Issue Costs are now expensed when incurred. The new section of "Deferred Outflow of Resources" is now part of the Statement of Net Position presentation. The beginning net position of the District decreased due to the removal of bond issue costs prior to the 2013 audit period. The following table summarizes the changes to beginning net position due to the implementation of GASB No. 65:

Net Position January 1, 2012	\$ 4,809,514
Removal of bond issue costs	(6,394)
Additions of deferred savings from refunding of bonds	<u>2,283</u>
Restated Net Position, January 1, 2012	<u>\$ 4,805,403</u>

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Commissioners
East Laurel Water District
London, 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 East Laurel 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 East Laurel Water District's basic financial statements, and have issued our report thereon dated March 20, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered East Laurel 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 East Laurel Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the East Laurel 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 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 over financial reporting 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 East Laurel 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.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
Corbin, Kentucky
March 20, 2014