# LARUE COUNTY WATER DISTRICT NO. 1

---

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2013 AND 2012

LARUE COUNTY WATER DISTRICT NO. 1

CONTENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA

STILES, CARTER & ASSOCIATES, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS
2901 RING ROAD EAST
P. O. BOX 622
ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371
FAX 270/765-7934
www.scacpa.com

MEMBER
AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs

# INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Larue County Water District No. 1
Buffalo, Kentucky

## Report on the Financial Statements

We have audited the accompanying financial statements of Larue County Water District No. 1 as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Larue County Water District No. 1, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the District adopted GASB No. 65, *Items Previously Reported as Assets* and GASB 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* during the year.

**Emphasis of a Matter**

*Required Supplementary Information*

The Larue County Water District No.1 has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information although not 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 the placing the basic financial statements in appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Larue County Water District's basic financial statements. Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Schedule III has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2014, on our consideration of Larue County Water District No. 1's internal control over financial reporting and 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 Larue County Water District No. 1's internal control over financial reporting and compliance.

Stiles, Carter + Associates
Certified Public Accountants
Elizabethtown, Kentucky
March 5, 2014

# LARUE COUNTY WATER DISTRICT NO. 1

## STATEMENTS OF NET POSITION

## DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 261,159 | $ 219,834 |
| Unrestricted investments | 179,849 | 178,299 |
| Accounts receivable, net | 99,530 | 104,528 |
| Unbilled receivables | 62,811 | 55,604 |
| Grant receivable | - | 4,725 |
| Prepaid loan payment | 14,531 | 14,532 |
| Prepaid insurance | 9,955 | 9,955 |
| Materials and supplies | 48,430 | 36,644 |
| TOTAL CURRENT ASSETS | 676,265 | 624,121 |
| NONCURRENT ASSETS: | | |
| Restricted cash and cash equivalents | 463,891 | 360,923 |
| Restricted investments | 931,286 | 801,526 |
| Capital assets, net of depreciation | 9,268,475 | 9,521,466 |
| TOTAL NONCURRENT ASSETS | 10,663,652 | 10,683,915 |
| TOTAL ASSETS | 11,339,917 | 11,308,036 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | 39,164 | 32,625 |
| Construction payable | - | 4,725 |
| Accrued taxes and other payroll liabilities | 15,988 | 13,797 |
| Accrued vacation | 24,137 | 20,561 |
| Accrued interest | 284 | 284 |
| Customer deposits | 21,888 | 20,152 |
| Note and bond payable | 81,449 | 55,385 |
| TOTAL CURRENT LIABILITIES | 182,910 | 147,529 |
| NONCURRENT LIABILITIES: | | |
| Customer deposits | 124,031 | 114,196 |
| Note and bond payable | 2,803,834 | 2,886,091 |
| TOTAL NONCURRENT LIABILITIES | 2,927,865 | 3,000,287 |
| TOTAL LIABILITIES | 3,110,775 | 3,147,816 |
| **NET POSITION** | | |
| Net investment in capital assets | 6,383,192 | 6,579,990 |
| Restricted net position | 129,649 | 91,497 |
| Unrestricted | 1,716,301 | 1,488,733 |
| TOTAL NET POSITION | $ 8,229,142 | $ 8,160,220 |

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

# LARUE COUNTY WATER DISTRICT NO. 1

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

## YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| OPERATING REVENUES: | | |
| Water sales | $ 1,398,764 | $ 1,396,837 |
| Other operating income | 20,714 | 14,570 |
| TOTAL OPERATING REVENUES | 1,419,478 | 1,411,407 |
| OPERATING EXPENSES: | | |
| Water purchased | 369,910 | 387,892 |
| Power purchased | 24,980 | 23,000 |
| Meter labor and expense | 238,792 | 212,970 |
| Bad debt | 7,587 | 7,663 |
| Repairs and maintenance | 71,517 | 63,060 |
| General and administrative expenses | 242,654 | 239,478 |
| Depreciation | 421,262 | 310,110 |
| TOTAL OPERATING EXPENSES | 1,376,702 | 1,244,173 |
| OPERATING INCOME | 42,776 | 167,234 |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Interest income | 7,752 | 14,637 |
| Gain (loss) on asset disposal | 500 | (478) |
| Interest expense on long-term debt | (113,856) | (133,267) |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | (105,604) | (119,108) |
| CAPITAL CONTRIBUTIONS | 131,750 | 959,575 |
| CHANGE IN NET POSITION | 68,922 | 1,007,701 |
| NET POSITION , beginning of year | 8,160,220 | 7,152,519 |
| NET POSITION, end of year | $ 8,229,142 | $ 8,160,220 |

The accompanying notes are integral part of these financial statements.

# LARUE COUNTY WATER DISTRICT NO. 1

## STATEMENTS OF CASH FLOWS

## YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from customers | $ 1,417,269 | $ 1,379,213 |
| Payments to suppliers | (598,582) | (602,036) |
| Payments to employees | (337,737) | (303,368) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 480,950 | 473,809 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Proceeds from issuance of debt | - | 3,186,477 |
| Principal payments on debt | (55,385) | (3,409,200) |
| Acquisition and construction of property | (161,636) | (1,245,550) |
| Capital contributions | 131,750 | 959,928 |
| Prepayments of long-term debt | (14,531) | (14,532) |
| Interest on long-term debt | (113,856) | (171,297) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (213,658) | (694,174) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sale (purchase) of investments | (125,000) | 108,796 |
| Interest income | 1,442 | 1,873 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | (123,558) | 110,669 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 143,734 | (109,696) |
| CASH AND CASH EQUIVALENTS, beginning of year | 581,316 | 690,453 |
| CASH AND CASH EQUIVALENTS, end of year | $ 725,050 | $ 580,757 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION: | | |
| Interest paid during the year | $ 114,666 | $ 171,297 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | $ 42,776 | $ 167,234 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | |
| Depreciation | 421,262 | 310,110 |
| Provision for bad debts | 7,587 | 7,663 |
| (Increase) decrease in accounts receivable | 4,998 | (21,714) |
| (Increase) decrease in unbilled receivables | (7,206) | (10,480) |
| (Increase) in materials and supplies | (11,786) | - |
| Increase (decrease) in accounts payable | 6,539 | 4,009 |
| Increase in customer deposits | 11,571 | 12,507 |
| (Decrease) increase in accrued taxes payable | 1,633 | (2,700) |
| Increase in accrued vacation | 3,576 | 7,180 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 480,950 | $ 473,809 |

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

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Larue County Water District No. 1 was organized pursuant to the provision of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Larue County, Kentucky.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity,* as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

During the year ended December 31, 2013, the District adopted the provisions of GASB Statement 65, *Items Previously Reported as Assets* and GASB Statement 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* during the year.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

D. FINANCIAL STATEMENT AMOUNTS

1. Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2013 and 2012, accounts receivable was stated net of an allowance for uncollectible accounts of $10,275 and $10,275. Bad debt expense for each of the years ended December 31, 2013 and 2012 was $7,587 and $7,663. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.

2. Materials and Supplies – Materials and supplies are composed of items used for the construction of capital projects.

3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.

4. Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

   Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

| | Years |
|---|---|
| Source of supply equipment | 15-50 |
| Water treatment plant | 10-40 |
| Transmission and distribution systems | 10-50 |
| Equipment | 3-20 |
| Structures and improvements, including buildings | 10-50 |
| Office furniture, equipment and vehicles | 3-20 |
| Meters and installation | 10-30 |

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Amortization - Bond discounts and premiums are being amortized using the straight-line method over the life of each respective bond issue.

6. Cash Equivalents - For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

7. Compensation for Future Absences - Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.

8. Claims and Judgments – These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

9. Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

10. Capital Contributions – Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

11. Long-term obligations are reported at face value, net of applicable premiums and discounts.

12. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

13. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Net Position- Net position is divided into three components:

   a. Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.
   b. Restricted net position – consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
   c. Unrestricted – all other net position is reported in this category.

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

NOTE 2 – DEPOSITS

*Custodial Credit Risk—Deposits*. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2013 and 2012, $675,631 and $539,736 of the District's bank balance of $1,860,253 and $1,594,171 was exposed to custodial credit risk. For 2013 and 2012, all of the amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution.

NOTE 3 – RESTRICTED CASH

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2013 and 2012:

| Restricted For | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Debt Service | $ 129,694 | $ 91,497 |
| Reserve & Depreciation | 1,265,483 | 1,070,924 |
| Construction | - | 28 |
| | $ 1,395,177 | $ 1,162,449 |

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

## NOTE 4 – CAPITAL ASSETS

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2013, is summarized as follows:

| | Balance 12/31/2012 | Additions / Reclassifications | Retirements | Balance 12/31/2013 |
|---|---|---|---|---|
| Non-Depreciable Assets: | | | | |
| Land and land rights | $ 60,580 | $ - | $ - | $ 60,580 |
| Construction in Progress | - | - | - | - |
| Total Non-Depreciable Assets: | 60,580 | - | $ - | $ 60,580 |
| Depreciable Assets: | | | | |
| Structures and improvements | 253,455 | - | - | 253,455 |
| Electric pumping equipment | 186,562 | - | - | 186,562 |
| Water Treatment Equipment | 300 | - | - | 300 |
| Standpipes and tanks | 2,446,511 | - | - | 2,446,511 |
| Transmission and distribution mains | 9,105,382 | 377,886 | - | 9,483,268 |
| Services | 205,192 | 733,647 | - | 938,839 |
| Hydrants | 24,035 | - | - | 24,035 |
| Office furniture and fixtures | 83,741 | - | - | 83,741 |
| Transportation equipment | 93,895 | 38,780 | (13,035) | 119,640 |
| Tool and shop equipment | 85,717 | 24,363 | - | 110,080 |
| Meters & Installation | 1,427,804 | (1,006,401) | (29,441) | 391,962 |
| Total capital assets being depreciated | 13,912,594 | 168,275 | (42,476) | 14,038,393 |
| Less accumulated depreciation for: | | | | |
| Structures and improvements | (118,537) | (10,172) | - | (128,709) |
| Electric pumping equipment | (183,793) | (923) | - | (184,716) |
| Water Treatment Equipment | (300) | - | - | (300) |
| Standpipes and tanks | (421,298) | (55,501) | - | (476,799) |
| Transmission and distribution mains | (2,783,502) | (274,964) | - | (3,058,466) |
| Services | (172,500) | (345,703) | - | (518,203) |
| Hydrants | (18,870) | (178) | - | (19,048) |
| Office furniture and fixtures | (78,102) | (5,231) | - | (83,333) |
| Transportation equipment | (81,971) | (9,476) | 13,031 | (78,416) |
| Tool and shop equipment | (79,103) | (6,956) | - | (86,059) |
| Meters & Installation | (513,732) | 287,842 | 29,441 | (196,449) |
| Total accumulated depreciation | (4,451,708) | (421,262) | 42,472 | (4,830,498) |
| Total capital assets being depreciated, net | 9,460,886 | (252,987) | (4) | 9,207,895 |
| Capital assets, net | $ 9,521,466 | $ (252,987) | $ (4) | $ 9,268,475 |

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Plant and equipment costs and accumulated depreciation at December 31, 2012, is summarized as follows:

| | Balance 12/31/2011 | Additions | Retirements | Balance 12/31/2012 |
|---|---|---|---|---|
| Non-Depreciable Assets: | | | | |
| Land and land rights | $ 60,580 | $ - | $ - | $ 60,580 |
| Construction in Progress | 132,939 | - | (132,939) | - |
| Total Non-Depreciable Assets: | 193,519 | - | (132,939) | 60,580 |
| Depreciable Assets: | | | | |
| Structures and improvements | 245,457 | 7,998 | - | 253,455 |
| Electric pumping equipment | 186,562 | - | - | 186,562 |
| Water Treatment Equipment | 300 | - | - | 300 |
| Standpipes and tanks | 1,501,084 | 945,427 | - | 2,446,511 |
| Transmission and distribution mains | 8,764,739 | 340,643 | - | 9,105,382 |
| Services | 190,192 | 15,000 | - | 205,192 |
| Hydrants | 24,035 | - | - | 24,035 |
| Office furniture and fixtures | 84,728 | - | (987) | 83,741 |
| Transportation equipment | 91,483 | 16,594 | (14,182) | 93,895 |
| Tool and shop equipment | 87,731 | - | (2,014) | 85,717 |
| Meters & Installation | 1,401,566 | 66,007 | (39,769) | 1,427,804 |
| Total capital assets being depreciated | 12,577,877 | 1,391,669 | (56,952) | 13,912,594 |
| Less accumulated depreciation for: | | | | |
| Structures and improvements | (108,965) | (9,572) | - | (118,537) |
| Electric pumping equipment | (182,870) | (923) | - | (183,793) |
| Water Treatment Equipment | (300) | - | - | (300) |
| Standpipes and tanks | (383,523) | (37,775) | - | (421,298) |
| Transmission and distribution mains | (2,593,935) | (189,567) | - | (2,783,502) |
| Services | (168,538) | (3,962) | - | (172,500) |
| Hydrants | (18,671) | (199) | - | (18,870) |
| Office furniture and fixtures | (71,565) | (7,524) | 987 | (78,102) |
| Transportation equipment | (92,164) | (3,989) | 14,182 | (81,971) |
| Tool and shop equipment | (77,816) | (3,301) | 2,014 | (79,103) |
| Meters & Installation | (499,225) | (53,298) | 38,791 | (513,732) |
| Total accumulated depreciation | (4,197,572) | (310,110) | 55,974 | (4,451,708) |
| Total capital assets being depreciated, net | 8,380,305 | 1,081,559 | (978) | 9,460,886 |
| Capital assets, net | $ 8,573,824 | $ 2,473,228 | $ (978) | $ 9,521,466 |

During the years ended December 31, 2013 and 2012, the District capitalized $-0- and $1,466 of interest.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

## NOTE 5 – LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds and notes payable authorized under Kentucky Revised Statutes. All assets of the District are pledged as collateral for these bonds. Bond maturities and Sinking Fund requirements in each of the next five years and in subsequent five year increments are as follows:

| Year | Note and Bond Payable Principal | Interest | Sinking Fund Requirements |
|---|---|---|---|
| 2014 | 81,449 | 102,332 | 10,238 |
| 2015 | 88,083 | 100,433 | 10,141 |
| 2016 | 88,500 | 98,392 | 10,045 |
| 2017 | 93,083 | 96,341 | 9,949 |
| 2018 | 94,000 | 93,359 | 10,353 |
| 2019-2023 | 529,332 | 417,134 | 51,100 |
| 2024-2028 | 652,499 | 315,598 | 52,005 |
| 2029-2033 | 615,250 | 182,614 | 52,252 |
| 2034-2038 | 466,586 | 66,902 | 53,572 |
| 2039-2043 | 82,833 | 15,885 | 53,553 |
| 2044-2048 | 47,000 | 8,210 | 55,210 |
| 2049-2051 | 31,000 | 1,692 | 32,692 |
| Total | $ 2,869,615 | $ 1,498,892 | $ 401,110 |

Changes in long-term obligations during the year ended December 31, 2013 were:

| | Balance 12/31/2012 | Additions | Reductions | Balance 12/31/2013 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds and notes payable: | | | | | |
| Revenue Bonds Payable | $ 245,000 | $ - | $ - | $ 245,000 | $ 3,500 |
| Note Payable | 2,680,000 | - | (55,385) | 2,624,615 | 77,949 |
| Unamortized Premium | 16,476 | - | (808) | 15,668 | - |
| Total bonds and notes payable | 2,941,476 | - | (56,193) | 2,885,283 | 81,449 |
| Other Liabilities: | | | | | |
| Customer Deposits | 134,348 | 11,571 | - | 145,919 | 21,888 |
| Long-Term Liabilities | $ 3,075,824 | $ 11,571 | $ (56,193) | $ 3,031,202 | $ 103,337 |

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term obligations during the year ended December 31, 2012 were:

| | Balance 12/31/2011 | Additions | Reductions | Balance 12/31/2012 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds and notes payable: | $ 3,164,200 | $ 245,000 | $ (3,164,200) | $ 245,000 | $ - |
| Short-term Financing | - | 245,000 | (245,000) | - | - |
| Note Payable | - | 2,680,000 | - | 2,680,000 | 55,385 |
| Unamortized Premium | - | 16,476 | - | 16,476 | - |
| Total bonds and notes payable | 3,164,200 | 3,186,476 | (3,409,200) | 2,941,476 | 55,385 |
| Other Liabilities: | | | | | |
| Customer Deposits | 121,841 | 12,507 | - | 134,348 | 20,152 |
| Long-Term Liabilities | $ 3,286,041 | $ 3,198,983 | $ (3,409,200) | $ 3,075,824 | $ 75,537 |

Information relating to the outstanding bond issues is summarized below:

| Date of Issue | Interest Rate | Original Amount of Each Issue | Note Payable and Bonds Outstanding December 31, 2013 | 2012 |
|---|---|---|---|---|
| 2012 Bond Series A | 2.75% | $ 245,000 | $ 245,000 | $ 245,000 |
| 2012 Note Series A | 2.0 - 3.625 | 2,680,000 | 2,624,615 | 2,680,000 |

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

Revenue Fund
All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

Bond Reserve Fund
This fund shall receive $1,605, a monthly rental, until an amount of $204,300 is reached. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. This account was fully funded at December 31, 2013 and 2012. The bond and interest redemption funds and bond reserve fund are maintained together in a single bank account and certificates of deposit.

(Continue next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Operation and Maintenance Fund
This fund receives, on a monthly basis, 90% of the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Reserve Fund.

Depreciation Fund
This fund receives, on a monthly basis, 10% of the remaining balance in the Revenue Fund after the above transfers have been made and the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment. This account is funded until it reaches a balance of $25,500. This account was fully funded at December 31, 2013 and 2012.

Full-time employees of the District are entitled to paid vacation and paid personal days depending upon length of service. Personal days must be used within the period earned. Vacation days may by carried forward.

NOTE 6 - RETIREMENT PLAN

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

Funding Policy- Plan members who began participation before September 1, 2008 are required to contribute 5 percent of their annual covered salary and plan members who began participation on or after September 1, 2008 are required to contribute 6 percent of their annual covered salary. The District is required to contribute at an actuarially determined rate. The contribution rates at December 31, 2013, 2012 and 2011 were 18.89%, 19.55%, and 18.96% of covered payroll. The District's contribution to CERS for the years ended December 31, 2013, 2012 and 2011 was $47,856, $41,500 and $36,437. The District contributed the required percentage for the years ended December 31, 2013, 2012 and 2011.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 6 – RETIREMENT PLAN (CONTINUED)

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

CERS also provides post-retirement health care coverage as follows:

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

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

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

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

NOTE 7 - MAJOR SUPPLIERS

The District purchases water for resale from approximately six suppliers with Hodgenville Waterworks, Bardstown Water District and Green River Valley Water District accounting for approximately ninety percent of the water supplied. Inability to obtain water from any of these suppliers could have a materially adverse effect on the District.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

## NOTE 8 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2013 and 2012:

| Source | 2013 | 2012 |
|---|---|---|
| State of Kentucky | $ - | $ 931,100 |
| Rurual Development | 105,000 | - |
| Tap Fees | 26,750 | 28,475 |
| | $ 131,750 | $ 959,575 |

## 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. The District was insured for workers' compensation, general liability coverage under a retrospectively rated commercial policy.

(Concluded)

# SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTS

DECEMBER 31, 2013

| | 2012 SERIES A BOND PAYABLE | | 2012 SERIES F NOTE PAYABLE | |
|---|---|---|---|---|
| | PRINCIPAL | INTEREST | PRINCIPAL | INTEREST |
| 2014 | $ 3,500 | $ 6,738 | $ 77,949 | $ 95,594 |
| 2015 | 3,500 | 6,641 | 84,583 | 93,792 |
| 2016 | 3,500 | 6,545 | 85,000 | 91,847 |
| 2017 | 3,500 | 6,449 | 89,583 | 89,892 |
| 2018 | 4,000 | 6,353 | 90,000 | 87,006 |
| 2019 | 4,000 | 6,243 | 94,583 | 84,036 |
| 2020 | 4,000 | 6,133 | 99,583 | 81,786 |
| 2021 | 4,000 | 6,023 | 100,000 | 77,662 |
| 2022 | 4,500 | 5,912 | 104,583 | 73,362 |
| 2023 | 4,500 | 5,789 | 109,583 | 70,188 |
| 2024 | 4,500 | 5,665 | 114,583 | 66,857 |
| 2025 | 5,000 | 5,541 | 119,583 | 63,362 |
| 2026 | 5,000 | 5,404 | 124,583 | 58,340 |
| 2027 | 5,000 | 5,266 | 129,583 | 52,983 |
| 2028 | 5,500 | 5,129 | 139,167 | 47,411 |
| 2029 | 5,500 | 4,978 | 107,917 | 41,427 |
| 2030 | 5,500 | 4,826 | 114,167 | 36,786 |
| 2031 | 6,000 | 4,675 | 119,583 | 31,877 |
| 2032 | 6,000 | 4,428 | 120,000 | 26,735 |
| 2033 | 6,000 | 4,345 | 124,583 | 22,537 |
| 2034 | 6,500 | 4,180 | 129,583 | 18,127 |
| 2035 | 6,500 | 4,001 | 134,583 | 13,378 |
| 2036 | 7,000 | 3,823 | 89,167 | 8,278 |
| 2037 | 7,000 | 3,630 | 39,167 | 4,792 |
| 2038 | 7,500 | 3,438 | 39,586 | 3,255 |
| 2039 | 7,500 | 3,231 | 40,000 | 1,701 |
| 2040 | 7,500 | 3,025 | 3,333 | 131 |
| 2041 | 8,000 | 2,819 | | |
| 2042 | 8,000 | 2,599 | | |
| 2043 | 8,500 | 2,379 | | |
| 2044 | 9,000 | 2,145 | | |
| 2045 | 9,000 | 1,898 | | |
| 2046 | 9,500 | 1,650 | | |
| 2047 | 9,500 | 1,389 | | |
| 2048 | 10,000 | 1,128 | | |
| 2049 | 10,500 | 853 | | |
| 2050 | 10,500 | 564 | | |
| 2051 | 10,000 | 275 | | |
| | $ 245,000 | $ 156,110 | $ 2,624,615 | $ 1,343,142 |

# LARUE COUNTY WATER DISTRICT NO. 1

## SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

| | YEARS ENDED DECEMBER 31, 2013 | YEARS ENDED DECEMBER 31, 2012 |
|---|---|---|
| Retirement expense | $ 47,856 | $ 41,500 |
| Insurance - health | 40,289 | 40,021 |
| Auto expense | 37,325 | 38,125 |
| Office supplies and postage | 24,132 | 31,475 |
| Payroll expense | 17,453 | 15,482 |
| Other general and administrative | 17,292 | 19,039 |
| Insurance - general liability | 14,790 | 11,827 |
| Professional fees | 13,985 | 19,300 |
| Insurance - workmens' compensation | 11,573 | 6,663 |
| Commissioners' salaries | 10,800 | 10,800 |
| Regulatory commission expense & other taxes | 4,419 | 3,733 |
| Training | 2,740 | 1,513 |
| | $ 242,654 | $ 239,478 |

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2013

WATER COMMISSIONERS
John Detre – Chairman
Pat Eastridge – Secretary/Treasurer
Bobby Garrison – Member

ATTORNEY
Damon R. Talley - Hodgenville, Kentucky

APPROVING BOND COUNSEL
Rubin & Hays - Louisville, Kentucky

CALENDAR YEAR
January 1 to December 31

# INTERNAL CONTROL AND FISCAL COMPLIANCE

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA

STILES, CARTER & ASSOCIATES, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS
2901 RING ROAD EAST
P. O. BOX 622
ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371
FAX 270/765-7934
www.scacpa.com

MEMBER
AMERICAN INSTITUTE
OF CPAs
KENTUCKY SOCIETY
OF CPAs

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

Board of Commissioners
Larue County Water District No. 1
Buffalo, 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 Larue County Water District No. 1, as of and for the year ended December 31, 2013, and have issued our report thereon dated March 5, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Larue County Water District No. 1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Larue County Water District No. 1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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 considered the deficiencies described in items 2013-01, 2013-02, and 2013-03 in the accompanying schedule of findings and responses to be material weaknesses.

**Compliance and Other Matters**

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

**Larue County Water District No.1's Response to Findings**

Larue County Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Larue County Water District No. 1's response and, accordingly, we express no opinion on it.

**Purpose of this Report**

This report is intended 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 District'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.

Stiles, Carter + Associates
Certified Public Accountants
Elizabethtown, Kentucky
March 5, 2014

LARUE COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013

**REFERENCE NUMBER 2013-01 PREPARATION OF FINANCIAL STATEMENTS**

**Criteria:** The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

**Condition:** The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

**Cause:** The District has financial personnel with limited financial reporting experience.

**Effect:** The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

**Recommendation:** We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

**Management Response:** The District has made strides in this area and is continously working to obtain the goal of current personnel being able to adequately prepare the financial statements.

**REFERENCE NUMBER 2013-02 FINANCIAL STATEMENT PRESENTATION**

**Criteria:** The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

**Condition:** As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

**Cause:** The District has a limited number of personnel with limited financial reporting experience.

**Effect:** The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

**Recommendation:** We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

**Management Response:** It would be beneficial to have financial training.

**REFERENCE NUMBER 2013-03 SEGREGATION OF DUTIES**

**Criteria:** The District's management is responsible for establishing and maintaining proper segregation of duties. In order to maintain proper segregation of duties District requires two signatures on checks for certain disbursements. Due to the limited number of personnel the District requires the signature of a commissioner on said checks along with the District's management.

**Condition:** As part of the audit we noted there were blank checks signed by a commissioner kept at the District. The checks contained only the signature of the commissioner.

**Cause:** The District had blank checks signed by commissioner so that items could be paid in the commissioner's absence.

**Effect:** The signature policy was not followed which could result in unapproved disbursements.

**Recommendation:** We recommend that checks be signed by the commissioner after the date; amount and vendor fields have been completed. Additionally, the invoice that supports the check should be present with the check at the time the commissioner signs the check.

**Management Response:** Management will bring this item before the board for further review.