

NORTH LOGAN WATER DISTRICT NO. 1  
(A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY)

REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION

YEAR ENDED DECEMBER 31, 2013

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
North Logan Water District No. 1  
Russellville, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the North Logan Water District No. 1 (a component unit of Logan County, Kentucky) as of and for the year ended December 31, 2013 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 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.

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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 financial position of the North Logan Water District No. 1 as of December 31, 2013, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages five through ten 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.

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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 an opinion on the financial statements that collectively comprise the District's basic financial statements.

The information on pages 22 and 23 is presented for purposes of additional analysis and are not a required part of the basic financial statements.


The schedules on pages 22 and 23 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, the *information* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 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.

March 3, 2014



NORTH LOGAN WATER DISTRICT NO. 1  
RUSSELLVILLE, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013

As management of the North Logan Water District No. 1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2013. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the District's basic financial statements. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

The information in this MD&A is presented under the following headings:

- Organization and Business
- Financial Highlights
- Overview of the Financial Statements
- Financial Analysis of the District
- Capital Assets and Debt Administration
- Budget Analysis
- Factors Impacting Future Periods
- Request for information

**ORGANIZATION AND BUSINESS**

North Logan Water District No. 1 is a component unit of county government of Logan County, Kentucky. The District currently maintains approximately 26 miles of distribution lines and provides water distribution services for approximately 556 users in northern Logan County, Kentucky. The water district purchases 100% of its water from the Logan Todd Regional Water Commission, a state of the art regional provider of high-quality water. The District in turn distributes and re-sales the water to industrial, commercial and residential users.

## FINANCIAL HIGHLIGHTS

- The total assets of the District exceeded the total liabilities by \$1,735,530.
- Based on the GASB 34 model of measuring net position, the total net position of the District increased \$11,172 or .65% of net position.
- The operating expenses increased in the current year, however there was an increase in operating income compared to prior year due to increased water sales.
- Water revenues increased from \$423,749 in 2012 to \$437,075 in 2013. Total expenses incurred increased from \$419,143 in 2012 to \$428,750 in 2013.
- The District purchases all water from the Logan Todd Regional Water Commission. The District's cost of water percentage relative to water sales was 48.95% for 2013.
- The District used the cash provided from operations during the current year for debt service.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the North Logan Water District's basic financial statements. The District's basic financial statements are comprised of two components: (1) Basic Financial Statements, (2) Notes to Basic Financial Statements. The report also contains other required supplementary information in addition to the basic financial statements.

The Financial Statements of the District report information utilizing the full accrual basis of accounting. This method of accounting recognizes revenues when earned instead of when received and recognizes expenses when incurred rather than when paid. The Financial Statements conform to accounting principles, which are generally accepted in the United States of America.

The Balance Sheet includes information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.



While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses, and Changes in Net Position presents the results of the District's operations over the course of the operating cycle. This statement can be used to determine whether the District has successfully recovered all of its actual cost including depreciation through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal period, such as delayed collection of operating revenues and delayed payment of current year expenses.

The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the operating cycle.

#### FINANCIAL ANALYSIS OF THE DISTRICT

##### Statement of Net Position as of December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Current assets	\$ 739,983	\$ 673,153
Capital assets	<u>1,271,173</u>	<u>1,346,984</u>
Total Assets	\$2,011,156 =====	\$2,020,137 =====
Long-term obligations	\$ 200,917	\$ 223,454
Other liabilities	<u>74,709</u>	<u>72,325</u>
Total Liabilities	\$ 275,626 =====	\$ 295,779 =====
<b>NET POSITION</b>		
Investments in capital assets	\$1,047,533	\$1,101,217
Restricted	107,966	84,806
Unrestricted	<u>580,031</u>	<u>538,335</u>
Total Net Position	\$1,735,530 =====	\$1,724,358 =====

Changes in Net Position for the Years Ended  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Water service revenue	\$ 425,002	\$ 412,859
Other revenue	<u>12,703</u>	<u>10,890</u>
Total Operating Revenues	437,075	423,749
Expenses		
Water operations	<u>428,750</u>	<u>419,143</u>
Net Operating income	8,325	4,606
Non-operating income (expense), net	<u>1,970</u>	( <u>2,438</u> )
Income before capital contributions	10,295	2,168
Capital contributions	<u>877</u>	<u>9,242</u>
Increase in net position	\$ 11,172 =====	\$ 11,410 =====

The District's total operating revenues increased \$13,326 with a corresponding increase of \$9,607 in operating expenses resulting in a increase of \$3,719 in operating income. Non-operating revenues, net of expenses, increased \$4,408.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The District had \$1,271,173 (net of accumulated depreciation) invested in a variety of utility capital assets. The investment in capital assets includes land, building, distribution reservoirs, distribution mains, meters and equipment.

**SUMMARY OF CAPITAL ASSETS**

	<u>2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>2013</u>
Land & land improvements	\$ 18,704	\$ -0-	\$ -0-	\$ 18,704
Building	24,672	-0-	-0-	24,672
Distribution reservoirs	565,727	-0-	-0-	565,727
Distribution mains	1,266,317	-0-	-0-	1,266,317
Hydrants	2,523	-0-	-0-	2,523
Meters and services	114,685	-0-	-0-	114,685
Equipment	28,889	-0-	-0-	28,889
Capitalized interest	<u>3,804</u>	<u>-0-</u>	<u>-0-</u>	<u>3,804</u>
	\$2,025,321	\$ -0-	\$ -0-	\$2,025,321
	=====	=====	=====	=====

**LONG-TERM DEBT**

At year-end, the District had \$245,767 in notes payable outstanding. The long-term debt was decreased \$22,091 or 8.25% from last year.

<u>TYPE</u>	<u>MATURITY</u>	<u>2013</u>	<u>2012</u>	<u>DECREASE</u>
Note payable				
KIA	June 2023	\$223,454	\$245,767	\$(22,313)
		=====	=====	=====

**BUDGET ANALYSIS**

- There was no change from the original budget to the final budget.
- The District's O & M budget was increased by approximately 2 percent over the prior year. Increased water usage caused a variance between the revenues that were budgeted and the actual water revenues of approximately \$4,000 and the largest variances between the expenses budgeted and actual was the decrease of approximately \$1,500 in water purchases under amounts budgeted.
- Actual change of net position was approximately \$300 more than budgeted amounts due primarily to the increase in water revenue.

**FACTORS IMPACTING FUTURE PERIODS**

The District is in the process of implementing Radio Read meters for the purpose of lowering the time used to perform monthly billing procedures.

**REQUEST FOR INFORMATION**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact Stewart C. Smotherman, Chairman of the Board, 3118 Lewisburg Road, Russellville, KY 42276

NORTH LOGAN WATER DISTRICT NO. 1  
(A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY)

STATEMENT OF NET POSITION  
DECEMBER 31, 2013

ASSET

CURRENT ASSETS

Cash	\$ 298,521
Investments	241,124
Accounts receivable	5,629
Unbilled revenues	54,683
Prepaid expense	<u>3,207</u>

\$ 603,164

RESTRICTED ASSETS

Restricted cash	36,819
Restricted investments	<u>100,000</u>

136,819

UTILITY PLANT

Utility plant in service	2,025,321
Less: accumulated depreciation	<u>( 754,148)</u>

1,271,173

\$2,011,156

=====

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 19,801
Other accrued liabilities	<u>3,332</u>

23,133

LIABILITIES PAYABLE FROM

RESTRICTED ASSETS

Current maturities of long-term debt	22,537
Accrued interest	186
Customer deposits	<u>28,853</u>

51,576

LONG-TERM DEBT, less current maturities

200,917

NET POSITION

Invested in capital assets	1,047,533
Restricted for:	
Capital Projects	7,966
Debt Service	100,000
Unrestricted	<u>580,031</u>

1,735,530

\$2,011,156

=====

See Notes to Financial Statements.

NORTH LOGAN WATER DISTRICT NO. 1  
(A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013

		<u>Percent of Revenues</u>
<b>OPERATING REVENUES</b>		
Water revenues	\$ 425,002	97.24%
Late charges	8,554	1.96%
Other revenues	<u>3,519</u>	<u>.80%</u>
	<u>437,075</u>	<u>100.00%</u>
<b>OPERATING EXPENSES</b>		
Purchased water	208,046	47.60%
Depreciation expense	75,811	17.35%
General and administrative expenses	<u>144,893</u>	<u>33.15%</u>
	<u>428,750</u>	<u>98.10%</u>
<b>OPERATING INCOME</b>	<u>8,325</u>	<u>1.90%</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	4,353	1.00%
Interest expense	<u>( 2,383)</u>	<u>( .54%)</u>
	<u>1,970</u>	<u>.46%</u>
<b>INCOME BEFORE CONTRIBUTIONS</b>	10,295	2.36%
<b>CAPITAL CONTRIBUTIONS</b>	<u>877</u>	=====
<b>CHANGE IN NET POSITION</b>	11,172	
<b>NET POSITION, beginning of year</b>	<u>1,724,358</u>	
<b>NET POSITION, end of year</b>	\$1,735,530	=====

See Notes to Financial Statements.

NORTH LOGAN WATER DISTRICT NO. 1  
(A COMPONENT UNIT OF LOGAN COUNTY, KENTUCKY)

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM	
OPERATING ACTIVITIES	
Receipts from customers	\$ 432,686
Payments to suppliers and employees	<u>(350,651)</u>
Net cash provided by operating activities	<u>82,035</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING	
ACTIVITIES	
Payments on long-term debt	( 22,313)
Interest paid	( 2,402)
Contributions in aid of construction	<u>877</u>
Net capital used by capital related financing activities	<u>( 23,838)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	( 4,354)
Interest received	<u>4,354</u>
Net cash used by investing activities	<u>-0-</u>
NET INCREASE IN CASH	58,197
CASH, beginning of year	<u>277,143</u>
CASH, end of year	\$ 335,340 =====
RECONCILIATION OF OPERATING INCOME TO	
NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ <u>8,325</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	75,811
Changes in operating assets and liabilities:	
Accounts receivable, net	( 640)
Unbilled revenues	( 3,749)
Prepaid expenses	110
Accounts payable	( 1,781)
Accrued liabilities	<u>3,959</u>
Total Adjustments	<u>73,710</u>
Net Cash Provided by Operating Activities	\$ 82,035 =====

See Notes to Financial Statements.

NORTH LOGAN WATER DISTRICT NO. 1  
(A COMPONENT UNIT OF LOGAN COUNT, KENTUCKY)

NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2013

**A. NATURE OF ORGANIZATION**

The North Logan Water District No. 1 (the "District") was chartered in 1968 to distribute water to customers in Logan County, Kentucky. It is a distribution of water under the authority of the Public Service Commission of Kentucky. The District acquires of all of its water for distribution from Logan/Todd Regional Water Commission.

The District is governed by a three member board (the "Board") that has the power and authority to acquire, construct, maintain and operate the waterworks system. The District is a component unit of Logan County, Kentucky. The criteria for determining the District to be a component unit of Logan County, Kentucky, the primary government, as set forth in GASB No. 14, The Financial Reporting Entity, is financial accountability. The majority of the commissioners of the Board are appointed by the Logan County Judge/Executive subject to the approval of the Logan County Fiscal Court. The District can provide a financial benefit to or impose a financial burden on the primary government.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation, Measurement Focus and Basis of Accounting**

The District has adopted the provisions of Statement No. 34 ("Statement 34") of the Government Accounting Standards Board "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments". Statement 34 established standards for external financial reporting for all state and local governmental entities that includes a managements' discussion and analysis section, a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the District to classify its net position into three components -invested in capital assets, restricted; and unrestricted. These classifications are defined as follows:



**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Invested in capital assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - consists of net assets with constraints placed on their use by bond resolutions and debt agreements.
- Unrestricted net assets - consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets."

Measurement focus is a term used to describe "which" transactions are recorded in the financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements of the District are reported using the "economic resources measurement focus" and the "accrual basis of accounting." Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District applies all relevant GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict or contradict GASB pronouncements, in which case the GASB pronouncements prevail.

**Investments**

Investments in the balance sheet consist of bank certificates of deposit with maturities greater than three months. Balances are stated at cost plus accrued interest.

**Receivables**

The District's receivables consist of billed charges to customers and unbilled charges. Unbilled revenues represent the estimated receivable amount for services that have not been billed to customers at the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (the date within the month for each billing period).

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility Plant and Depreciation

Utility plant constructed or acquired is stated at cost and any utility plant contributed is stated at estimated fair value on the date received. Utility plant assets are defined by the District as a unit of property with an individual cost equal or greater than \$500 and an estimated useful life of one year or more. The costs of normal repairs of property and the replacement and renewal of items considered less than units of property are charged to maintenance expense. Interest is capitalized, net of interest earned on interest-bearing investments acquired with the proceeds of tax-exempt borrowings, in connection with the construction of significant utility plant. The construction period interest is recorded as part of the cost of the asset to which it relates and is amortized over the asset's estimated useful life. The District did not capitalize any interest in 2013.

Depreciation of utility plant is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable utility plant assets are as follows:

	<u>Depreciable Life</u> <u>(Years)</u>
Building	20 - 40 years
Water plant	5 - 50 years

Revenues and Expenses

Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for water services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent they are available and then to unrestricted net position.

**Subsequent Events**

The District has evaluated events occurring between the end of its most recent fiscal year and March 3, 2014, the date the accompanying financial statements were available to be issued.

**C. CASH DEPOSITS AND INVESTMENTS**

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.

At December 31, 2013, the carrying amount of the District's cash deposits total \$676,464 including certificates of deposit of \$341,124, and the bank balances are \$677,706. Of the bank balances, \$250,000 is insured by the Federal Depository Insurance Corporation (FDIC) with the balance to be collateralized by securities held by the District's safekeeping agent in the District's name. At December 31, 2013, the District had \$39,365 of deposits that were not insured or collateralized.

Interest rate risk is the risk that interest rate changes will adversely affect the fair value of an investment. The district has no formal investment policy that limits investment maturities as a means of managing its exposure to decreases in fair value resulting from rising interest rates.

**Concentration of Credit Risk** -

The District has no policy that limits the amount the District may invest in any one issuer that represent 5 percent or more of the total investments.

The District is authorized by law to invest idle funds in obligations of the U.S. Government and its agencies and instrumentalities including obligations subject to repurchase agreements and obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency. The District also may invest in obligations of any corporation of the U.S. government and bonds or certificates of indebtedness of the State of Kentucky and any of its agencies and instrumentalities.

**C. CASH DEPOSITS AND INVESTMENTS (Continued)**

The District also may invest in certificates of deposit and other interest-bearing accounts of any bank or savings and loan institutions which are insured or properly collateralized and uncollateralized certificates of deposit and banker's acceptance issued by an bank or savings and loan institution rated in one of the three highest category by nationally recognized rating agency, securities issued by any other states or local governments rated in one of the three highest categories by a nationally recognized rating agency, and shares of mutual funds whose securities consist of eligible investments discussed above. Investments in any of the following categories of investments: (1) uncollateralized certificates of deposit, (2) banker's acceptances, (3) commercial paper and (4) securities issued by other states or local governments shall not exceed 20% of the total funds invested by the District.

**D. WATER SALES AGREEMENT AND CONCENTRATION**

Logan/Todd Regional Water Commission was the sole provided of water to the District during 2013. The District has a water purchase contract with Logan/Todd Regional Water Commission that stipulates the requirements of the Commission to provide water to the District and the rates the District will be charged for the expected water usage. The contract extends for a term of 50 years. The agreement may be renewed or extended for such term or terms as may be agreed by the Commission and the District. Under the terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District add any customer to its system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The District began purchasing water from the Commission in April 2003. The agreement requires the District to purchase minimum levels of water from the Commission. If minimum purchase levels are not met, the Commission may charge the District for any shortages.

**E. UTILITY PLANT**

Utility plant at December 31, 2013 and 2012 and changes during 2013 consist of the following:

	Balance December 31 <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31 <u>2013</u>
Utility plant not being depreciated:				
Land and land rights	\$ 18,704	\$ -0-	\$ -0-	\$ 18,704
Other utility plant being depreciated:				
Building	24,672	-0-	-0-	24,672
Water plant	<u>1,981,945</u>	<u>-0-</u>	<u>( )</u>	<u>1,981,945</u>
	<u>2,006,617</u>	<u>-0-</u>	<u>( )</u>	<u>2,006,617</u>
Less: accumulated depreciation:				
Building	( 7,646)	( 764)	-0-	( 8,410)
Water Plant	<u>( 670,691)</u>	<u>( 75,047)</u>	<u>-0-</u>	<u>( 745,738)</u>
	<u>( 678,337)</u>	<u>( 75,811)</u>	<u>-0-</u>	<u>( 754,148)</u>
	<u>\$1,346,984</u>	<u>\$ ( 75,811)</u>	<u>\$ -0-</u>	<u>\$1,271,173</u>
	=====	=====	=====	=====

For the year ended December 31, 2013, depreciation expense totaled \$75,811.

**F. LONG-TERM DEBT**

Long-term debt at December 31, 2013 consists of the following:

Note payable to Kentucky Infrastructure Authority, due in semi-annual installments, including interest at 1.0%, through June, 2023.	\$223,454
Less current maturities	<u>( 22,537)</u>
Long-term debt	<u>\$200,917</u> =====

F. LONG-TERM DEBT (Continued)

Debt service requirements on long-term debt at December 31, 2013, for each of the next five years and five year increments thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 22,537	\$ 2,178	\$ 24,715
2015	22,763	1,952	24,715
2016	22,991	1,724	24,715
2017	23,221	1,494	24,715
2018	23,454	1,261	24,715
2019-2023	<u>108,488</u>	<u>2,729</u>	<u>111,217</u>
	\$223,454	\$11,338	\$234,792
	=====	=====	=====

The note is collateralized by water system revenues and includes a requirement to fund a replacement and maintenance reserve, held by the District, according to an amortization schedule.

G. CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended December 31, 2013 are as follows:

	<u>Revenue Bond and Note Payable</u>
Balance, December 31, 2012	\$245,767
Additions	-0-
Reductions	<u>( 22,313)</u>
Balance, December 31, 2013	\$223,454
	=====
Amounts due within one year at December 31, 2013	\$ 22,537
	=====

**H. RESTRICTED CASH**

Restricted cash and investments at December 31, 2013 are available for the following purposes:

Debt service	\$100,000
Capital projects	7,966
Customer deposits	<u>28,853</u>
	\$136,819
	=====

**I. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; employee dishonesty; injuries to employees; and natural disasters. The District obtains commercial insurance to cover general liability claims, employee dishonesty, worker's compensation claims, and property damage. The District's worker's compensation coverage is retrospectively rated, whereby premiums are accrued based on the ultimate cost of the experience of the District. Claims arising are paid by the insurer. There have been no significant reductions in insurance coverage in 2013 from the coverage in 2012, and settled claims have not exceeded insurance coverage in any of the past three fiscal years.

**J. CAPITAL CONTRIBUTIONS**

During the year ended December 31, 2013 the District received the following capital contributions:

Customer Tap On Fees	\$ 877
	=====

**K. SUBSEQUENT EVENTS**

On February 27, 2014, the District executed a contract to purchase a Radio Read Meter system at a cost of \$135,460.

OTHER SUPPLEMENTARY INFORMATION



NORTH LOGAN WATER DISTRICT NO. 1  
(A COMPONENT UNIT OF LOGAN COUNT, KENTUCKY)

BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED DECEMBER 31, 2013

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>OPERATING REVENUES</b>			
Water revenues	\$421,116	\$425,002	\$ 3,886
Late charges	8,377	8,554	177
Other revenues	<u>2,731</u>	<u>3,519</u>	<u>788</u>
	<u>432,224</u>	<u>437,075</u>	<u>4,851</u>
<b>OPERATING EXPENSES</b>			
Purchased water	206,581	208,046	( 1,465)
Depreciation expense	75,811	75,811	-0-
General and administrative expenses	<u>141,358</u>	<u>144,893</u>	<u>( 3,535)</u>
	<u>423,750</u>	<u>428,750</u>	<u>( 5,000)</u>
<b>OPERATING INCOME (LOSS)</b>	<u>8,474</u>	<u>8,325</u>	<u>( 149)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	4,783	4,353	( 430)
Interest expense	<u>( 2,402)</u>	<u>( 2,383)</u>	<u>19</u>
	<u>2,381</u>	<u>1,970</u>	<u>( 411)</u>
<b>INCOME BEFORE CONTRIBUTIONS</b>	10,855	10,295	( 560)
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>	<u>-0-</u>	<u>877</u>	<u>877</u>
<b>INCREASE IN NET POSITION</b>	<u>\$ 10,855</u>	<u>\$ 11,172</u>	<u>\$ 317</u>
	=====	=====	=====

See Independent Auditor's Report.

NORTH LOGAN WATER DISTRICT NO. 1  
(A COMPONENT UNIT OF LOGAN COUNT, KENTUCKY)

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

YEAR ENDED DECEMBER 31, 2013

		<u>Percent of</u> <u>Revenues</u>
Payroll expense	\$ 37,463	8.56%
Professional fees	16,345	3.74%
Commissioners' fees	12,600	2.88%
Plant materials and supplies	14,227	3.26%
Contract services	9,000	2.06%
Water testing	1,097	.25%
Insurance	4,615	1.06%
Travel	13,889	3.18%
Office supplies and expense	12,193	2.79%
Employee benefits	12,253	2.80%
Utilities	4,929	1.13%
Payroll taxes	4,135	.95%
Bad debt expense	<u>2,147</u>	<u>.49%</u>
	\$144,893	33.15%
	=====	=====

See Independent Auditor's Report.

# Hilliard and Fisher

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. BOX 1400  
BOWLING GREEN, KENTUCKY 42102

KEITH A. HILLIARD  
EDWARD N. FISHER

TELEPHONE (270) 781-0386  
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners  
North Logan Water District No. 1  
Russellville, 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 North Logan Water District No. 1, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 3, 2014.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

North Logan Water District No. 1  
Page Two  
March 3, 2014

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

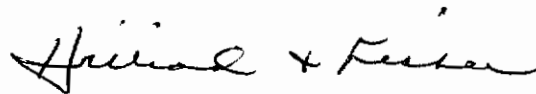
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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.

March 3, 2014

A handwritten signature in cursive script, appearing to read "H. J. ... + ...".