

PENDLETON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

PENDLETON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2013 and 2012

Table of Contents

	<u>Page</u>
Board of Commissioners	1
Independent Auditor's Report	2-4
Management's Discussion and Analysis	5-9
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12
Notes to the Financial Statements	13-23
Schedules of Operations, Maintenance and Administrative Expenses	24
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 <i>Government Auditing Standards</i>	25-26

PENDLETON COUNTY WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2013 and 2012

L.R. Faulkner, Jr., Chairman

Dave Boden, Vice-Chairman

Brent Moore, Treasurer

Larry "Rick" Adams, Secretary

Joe Strange, Commissioner

Of Counsel

Jeff Dean, Pendleton County Attorney

Administration

William Jones, General Manager



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

Independent Auditor's Report

To the Board of Commissioners
Pendleton County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Pendleton County Water District (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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

-Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Pendleton County Water District as of December 31, 2013 and 2012 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5–9 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 audits 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Pendleton County Water District's basic financial statements. The supplementary schedules on page 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules 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 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2014 on our consideration of Pendleton County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pendleton County Water District's internal control over financial reporting and compliance.



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
April 14, 2014

PENDLETON COUNTY WATER DISTRICT

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Deaf, Hard-of-Hearing or Speech Impaired, call 711

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2013. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$8,722,896 (net position). This was an increase of \$201,346 in comparison to the prior year. The change is mainly attributable to an increase in water revenue as a result of a rate increase and an increase in contributed capital from a grant and the expiration of an obligation to refund tap fees on the Pendleton Acres development.
- At the end of the current year, unrestricted net position was \$1,377,145.

USING THIS ANNUAL REPORT

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statements No. 34. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

Basis of Accounting

The District's financial statements are prepared using the accrual basis of accounting.

The Statements of Net Position and Revenues, Expenses and Changes in Net Position

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for water consumption to customers to cover all or most of the cost of certain services it provides.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2013 and 2012.

**Table 1
Net Position**

	<u>2013</u>	(Restated) <u>2012</u>
Current Assets	\$ 406,931	\$ 361,177
Restricted Assets	1,368,434	1,240,950
Noncurrent Assets	<u>8,853,694</u>	<u>8,944,358</u>
Total Assets	<u>10,629,059</u>	<u>10,546,485</u>
Current Liabilities	111,783	179,845
Liabilities Payable from Restricted Assets	119,345	116,590
Long Term Liabilities	<u>1,675,035</u>	<u>1,728,500</u>
Total Liabilities	<u>1,906,163</u>	<u>2,024,935</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	7,116,659	7,060,070
Restricted	229,092	223,000
Unrestricted	<u>1,377,145</u>	<u>1,238,480</u>
Total Net Position	<u>\$ 8,722,896</u>	<u>\$ 8,521,550</u>

The District's net position for 2013 increased 2.4% or \$201,346 as compared to a .14% or \$12,195 increase in the previous year. This increase is primarily due to an increase in water sales and contributed capital.

The largest portion of the District's net position (81.5%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position (2.6%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

SUMMARY OF CHANGES IN NET POSITION

Revenues

Water revenues increased 5.9% from 2012 to 2013. The increase was a result of a rate increase that went into effect with the May billing for April 2013 water usage.

Water Costs

Water costs increased \$3,250 or .8% from 2012 to 2013. Water consumption remained approximately the same in 2013 as it was in 2012 so water costs did not vary much between years.

Operation and Maintenance Expense

Operation and maintenance expense increased \$15,545 or 2.5% from 2012 to 2013. This increase was primarily due to increases in employee salaries and benefits.

Investment Income

Investment income decreased \$1,809 from 2012 to 2013. This number reflects the decrease in interest rates at financial institutions.

Capital Contributions

Capital contributions increased \$137,371 from 2012 to 2013. The obligation to refund tap fees for the Pendleton Acres development expired in 2013 and the remaining balance of \$99,288 was recognized as income. Also the District received a grant from the Pendleton County Airport Board for a water line project

The following schedule compares the revenues and expenses for the current year and the previous year.

Table 2
Changes in Net Position

	<u>2013</u>	(Restated) <u>2012</u>
Operating Revenues:		
Water Sales	\$1,293,773	\$1,212,467
Forfeited Discounts	24,140	21,992
Miscellaneous Services Revenues	22,182	31,074
Total Operating Revenues	<u>1,340,095</u>	<u>1,265,533</u>
Operating Expenses:		
Water Purchased	390,515	387,265
Operation and Maintenance Expense	639,203	623,658
Depreciation	221,788	221,979
Total Operating Expenses	<u>1,251,506</u>	<u>1,232,902</u>
Net Operating Profit/(Loss)	<u>88,589</u>	<u>32,631</u>
Non-Operating Income(Expenses)		
Investment Income	6,973	8,782
Loss on Disposition of Assets	218	0
Interest on Long-Term Debt	(80,443)	(86,074)
Debt Issue Costs	(9,908)	0
Amortization of Bond Premium	1,690	0
Net Non-Operating Expenses	<u>(81,470)</u>	<u>(77,292)</u>
Income/(Loss) Before Capital Contributions	7,119	(44,661)
Capital Contributions	<u>194,227</u>	<u>56,856</u>
Change in Net Position	201,346	12,195
Net Position – January 1	8,521,550	8,525,857
Prior Period Adjustment	<u>0</u>	<u>(16,502)</u>
Net Position – December 31	<u>\$8,722,896</u>	<u>\$8,521,550</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2013, the District had \$8,853,694 invested in capital assets including land, buildings, water systems, equipment, and vehicles, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$90,664. During 2013 depreciation expense exceeded the cost of new assets put into service resulting in a decrease in the amount invested in capital assets during 2013.

Table 3 Summarizes the District's capital assets at the end of 2013 as compared to 2012.

Table 3
Capital Assets at Year End

	<u>2013</u>	<u>2012</u>
Land	\$ 63,176	\$ 63,176
Transmission Lines & Equipment	12,262,518	12,160,074
Furniture & Fixtures	57,752	67,022
Machinery & Equipment	318,435	304,989
Buildings & Improvements	<u>326,312</u>	<u>326,312</u>
Subtotal	13,028,193	12,921,573
Accumulated Depreciation	<u>(4,184,499)</u>	<u>(3,977,215)</u>
Total Capital Assets	<u>\$ 8,853,694</u>	<u>\$ 8,944,358</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2013 compared to 2012.

Table 4
Outstanding Debt at Year End

	<u>2013</u>	<u>2012</u>
Bond Payable Obligations	\$1,681,500	\$1,745,000
Capitalized Lease	33,000	40,000
Developer Refunds	<u>0</u>	<u>99,288</u>
Total	<u>\$1,714,500</u>	<u>\$1,884,288</u>


At year-end, the District had \$1,714,500 in outstanding notes and bonds compared to \$1,884,288 last year. This is a decrease of \$169,788 or 9%. The decrease is due to two events that occurred during 2013. The obligation to refund tap fees for the Pendleton Acres development expired in 2013 and the remaining balance of \$99,288 was removed from debt and recognized as income. In addition, the District refunded all of the \$229,000 in Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2001A bearing interest at 5.099% by issuing \$215,000 of Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds, Series 2013C bearing interest at 2.3% to 4.%. These bonds were issued at a premium of \$24,225 which is being amortized over the life of the bonds. The District will achieve substantial interest cost savings as a result of this refunding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2014 calls for a 2% increase in operating revenues. Most of this increase is due to the rate increase that occurred during 2013. Since the first billing at the increased rates did not go out until May of 2013, the months of January through April of 2014 should show increased water revenues over the 2013 amounts. Operating expenses are expected to increase by 4.4%. The District expects an increase in employee salaries and benefits due to an increase in the number of employees for the year. Both the general manager and the office manager will retire during 2014 and the District has hired additional personnel early in the year for training purposes in the hopes that this will result in a smooth transition. In addition, the cost of operating supplies are expected to increase due to an aging infrastructure and abnormally low maintenance costs during 2013.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 331 Highway 330 West, Falmouth, Kentucky 41040.



William Jones, General Manager
Pendleton County Water District

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2013 and 2012
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(Restated)

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	\$ 191,644	\$ 161,819
Accounts receivable	150,525	138,580
Inventories	42,788	41,511
Prepays	21,667	18,901
Accrued interest income	307	366
Total Current Assets	<u>406,931</u>	<u>361,177</u>
Restricted Assets		
Improvement, repair, and replacement	1,070,806	945,964
Depreciation reserve	203,164	201,566
Bond sinking fund	57,284	56,793
Customer deposits	37,180	36,627
Total Restricted Assets	<u>1,368,434</u>	<u>1,240,950</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	13,028,193	12,921,573
Less: accumulated depreciation	(4,174,499)	(3,977,215)
Total Capital Assets, net of depreciation	<u>8,853,694</u>	<u>8,944,358</u>
TOTAL ASSETS	<u>10,629,059</u>	<u>10,546,485</u>
LIABILITIES		
Current Liabilities		
Accounts payable	58,980	59,834
Accrued and withheld liabilities	52,803	20,723
Developer refunds - current portion	-	99,288
Total Current Liabilities	<u>111,783</u>	<u>179,845</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds - current portion	55,000	49,500
Lease obligation - current portion	7,000	7,000
Customer deposits	35,021	34,345
Accrued interest payable	22,324	25,745
Total Current Liabilities Payable From Restricted Assets	<u>119,345</u>	<u>116,590</u>
Long-Term Liabilities		
Bonds	1,626,500	1,695,500
Capital lease payable	26,000	33,000
Unamortized premium on debt	22,535	-
Total Long-Term Liabilities	<u>1,675,035</u>	<u>1,728,500</u>
TOTAL LIABILITIES	<u>1,906,163</u>	<u>2,024,935</u>
NET POSITION		
Invested in capital assets, net of related debt	7,116,659	7,060,070
Restricted	229,092	223,000
Unrestricted	1,377,145	1,238,480
TOTAL NET POSITION	<u>\$ 8,722,896</u>	<u>\$ 8,521,550</u>

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

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<i>(Restated)</i> <u>2012</u>
OPERATING REVENUES		
Water revenue	\$ 1,317,913	\$ 1,234,459
Other service revenues	<u>22,182</u>	<u>31,074</u>
TOTAL OPERATING REVENUES	<u>1,340,095</u>	<u>1,265,533</u>
OPERATING EXPENSES		
Water purchased	390,515	387,265
Operations, maintenance, and administrative expenses	639,203	623,658
Depreciation	<u>221,788</u>	<u>221,979</u>
TOTAL OPERATING EXPENSES	<u>1,251,506</u>	<u>1,232,902</u>
OPERATING PROFIT	<u>88,589</u>	<u>32,631</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	6,973	8,782
Gain on disposal of assets	218	-
Interest on long-term obligations	(80,443)	(86,074)
Debt issuance cost	(9,908)	-
Amortization of bond premium	<u>1,690</u>	<u>-</u>
NET NON-OPERATING EXPENSES	<u>(81,470)</u>	<u>(77,292)</u>
NET INCOME (LOSS)	7,119	(44,661)
CAPITAL CONTRIBUTIONS	<u>194,227</u>	<u>56,856</u>
CHANGE IN NET POSITION	201,346	12,195
NET POSITION, JANUARY 1	8,521,550	8,525,857
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(16,502)</u>
NET POSITION, DECEMBER 31	<u>\$ 8,722,896</u>	<u>\$ 8,521,550</u>

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

PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 7 – DEVELOPER REFUNDS

During 2003, a developer installed waterlines within a subdivision that he owns. The District refunded \$887 to this developer (the actual cost of 50 feet of waterline) for each customer that bought a lot and connected to the waterline within ten years as of December 1, 2004. The total refund could have been \$115,245. As of December 31, 2012, eighteen customers had tapped into this line, leaving a balance of \$99,288. The refund period expired in December 2013; the entire remaining balance of \$99,288 is recognized as contributed capital at December 31, 2013.

NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness are as follows:

Debt Instrument	Balance at December 31, 2012	Additions	Retirements	Balance at December 31, 2013
Revenue bonds of 1977	\$ 67,000	\$ -	\$ (12,000)	\$ 55,000
Revenue bonds of 1997	662,000	-	(10,500)	651,500
Series 2001A bonds	245,000	-	(245,000)	-
Revenue bonds of 2004	554,000	-	(8,000)	546,000
Revenue bonds of 2010	217,000	-	(3,000)	214,000
Series 2013C bonds	-	215,000	-	215,000
Capitalized lease	40,000	-	(7,000)	33,000
Developer refunds	99,288	-	(99,288)	-
Subtotal	1,884,288	\$ 215,000	\$ (384,788)	1,714,500
Less: current portion of long-term debt	(155,788)			(62,000)
Total Long-Term Indebtedness	\$ 1,728,500			\$ 1,652,500

NOTE 9 – OPERATING LEASE

The District leases a copier under an operating lease that began in July 2008 and will remain in force until April 2013. Rental payments under this lease were \$618 and \$2,446 for 2013 and 2012, respectively. The District entered into an operating lease, for a new copier, beginning May 2013 and continuing through April 2018. Payments under this lease were \$1,663 in 2013. Future minimum lease payments are as follows:

Year	Lease Payments
2014	\$ 2,217
2015	2,217
2016	2,217
2017	2,217
2018	554
Totals	\$ 9,422

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 10 – EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System (CERS) of Kentucky. It is a cost sharing multiple-employer defined benefit pension plan created by and operated under Kentucky law. CERS covers substantially all regular full-time employees of each county and school board, and any additional local agencies electing to participate in the system. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the State Legislature. For the years ended December 31, 2013 and 2012, plan members were required to contribute 5% of their annual creditable compensation. Members hired on or after September 1, 2008 are required to contribute 6%. The additional 1% is considered a health insurance contribution. Employer contribution rates are actuarially determined. Such contribution rates are determined by the Board of Trustees of the Kentucky Retirement System. They may amend contribution rates as of the first day of July, if it is determined necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. From January until July 2013 the employer contribution rates were 19.55%. From July until December 2013, the employer rates were 18.89%. From January until July 2012 the employer contribution rates were 18.96%. From July until December 2012, the employer rates were 19.55%.

The District has made 100% of all required contributions for each of the years ended December 31, 2013, 2012, 2011, 2010, and 2009. Information about the contributions made by the District and the employees, as well as gross payroll and covered payroll follows:

	2013	2012	2011	2010	2009
Gross Payroll - All Employees	\$ 336,077	\$ 328,445	\$ 323,777	\$ 314,299	\$ 296,050
Gross Payroll - Covered Employees	312,977	304,445	300,177	291,099	261,530
Employee Contribution	15,649	15,522	15,242	14,555	13,077
Employer Contribution (expense)	60,129	58,641	53,817	48,244	38,892

NOTE 11 – ECONOMIC DEPENDENCY/CREDIT RISK

Pendleton County Water District is a government agency operating with one office in Falmouth, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Pendleton, Campbell, and Grant Counties in Kentucky.

NOTE 12 – CONCENTRATIONS

The District has agreements to purchase water from the City of Falmouth, Kentucky and the Northern Kentucky Water District through the year 2047. In June 2001, the District signed an agreement to purchase water on an "as needed" basis from the City of Williamstown, Kentucky. This contract is in force until June 2021.

PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 13 – CHANGE IN ACCOUNTING ESTIMATE

During 2012, the District, per recommendation from the Kentucky Public Service Commission, changed the useful lives of its transmission and distribution mains from 40 years to 75 years. This change has been applied prospectively beginning in 2012.

NOTE 14 – RECLASSIFICATION IN PRIOR YEAR STATEMENTS

The 2012 Statement of Revenues, Expenses and Changes in Net Position has been adjusted due to the requirements of GASB 65 (See NOTE 1) which disallows the amortization of bond issuance costs over the life of the bond. The Statement requires that all accounts be adjusted retroactively to the earliest period disclosed. Therefore, a prior period adjustment, reducing the net position by \$15,602, has been recorded; as if the bond issuance costs were expensed at the date the costs were incurred.

NOTE 15 – SUBSEQUENT EVENTS

The District instituted a rate increase, which was approved by the Kentucky Public Service Commission, subsequent to December 31, 2012. The increase took effect on the District's billing in May, 2013. The minimum bill amount varies based on meter size, and can fall between \$22 for the smallest and \$49 for the largest meter.

On January 7, 2014, the District signed an amended lease agreement in connection with the Water Works System Revenue Bonds, U.S. Department of Agriculture 1997 reducing both interest rates and payment amounts. The interest rate on the principal balance reduces from the current 5.0% to varying rates ranging from 1.3% to 2.3%. This amendment provides substantial savings to the District.

PENDLETON COUNTY WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2013 and 2012
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	<u>2013</u>	<u>2012</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 311,404	\$ 284,442
Employee pension and benefits	104,913	99,423
Advertising	1,144	2,610
Bad debt expense	7,403	3,824
Commissioners' fees	23,100	24,000
Contractual services - accounting	19,000	22,375
Contractual services - other	20,787	18,162
Insurance - general and vehicle	17,730	16,386
Insurance - other	945	1,057
Insurance - workers' compensation	5,126	4,427
Maintenance	13,669	6,871
Materials and supplies	21,135	49,233
Miscellaneous	4,258	4,057
Purchased power	17,427	16,758
Regulatory commission	2,305	2,243
Rental of equipment	2,518	2,446
Taxes	24,379	23,090
Transportation	26,179	26,718
Utilities	15,781	15,536
	<hr/>	<hr/>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 639,203</u>	<u>\$ 623,658</u>



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

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Lori A. Owen, CPA
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Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**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***

**To the Board of Commissioners
Pendleton County Water District**

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 Pendleton County Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements which collectively comprise Pendleton County Water District's basic financial statements and have issued our report thereon dated April 14, 2014..

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Pendleton County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pendleton County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pendleton County 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below, that we consider significant deficiencies.

Lack of Segregation of Duties

Condition: We noted that due to the size of the District and financial considerations, some of the executing and recording of transactions are performed by the same person.

Criteria: Segregation of duties is a necessary part of any system of internal control. Segregating the processes of authorizing, executing and recording transactions is essential.

Effect: Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account. The District has determined that the cost of mitigation is not justified when compared to the risk of the related transactions.

Recommendation: Due to the size of the District and other financial considerations, internal controls should be implemented, to the highest appropriate level, to segregate the duties of the personnel. Controls should then be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pendleton County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. Noncompliance 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 audits, 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.



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
April 14, 2014