

POWELL'S VALLEY
WATER DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
for the year ended December 31, 2014

CONTENTS

	Page
Independent Auditor's Report	1-2
<i>Financial Statements</i>	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-10
<i>Supplemental Information</i>	
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	11-12
Comparative Statement of Revenues and Expenses	13
Statement of Revenues and Expenses - Water and Sewer	14
Schedule of Findings	15

John T. Lane and Associates, LLC
Certified Public Accountants
219 Young Lane, Suite 2
Mount Sterling, Kentucky 40353
(859) 498-9915
www.TheLaneCPA.com

Member:
American Institute of CPA's
Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Powell's Valley Water District
Clay City, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Powell's Valley Water District as of and for the year ended December 31, 2014, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Powell's Valley Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

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.

Management has elected to omit the Management's Discussion & Analysis which is required by the Governmental Accounting Standards Board.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Powell's Valley Water District, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Powell's Valley Water District's financial statements as a whole. The Comparative Statement of Revenues and Expenses and the Statement of Revenues and Expenses – Water and Sewer are presented for purposes of additional analysis and are not a required part of the financial statements. The Comparative Statement of Revenues and Expenses and the Statement of Revenues and Expenses – Water and Sewer are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The combining Comparative Statement of Revenues and Expenses and the Statement of Revenues and Expenses – Water and Sewer have 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 them.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

April 16, 2015

This report contains 15 pages.

POWELL'S VALLEY WATER DISTRICT
Statement of Net Position
Proprietary Fund
December 31, 2014

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 87,797
Cash and cash equivalents - restricted (note 1)	261,735
Accounts receivable - net of allowance for doubtful accounts (note 1)	96,528
Inventory (note 1)	8,843
Prepaid expenses	<u>1,461</u>
Total Current Assets	<u>456,364</u>
Noncurrent Assets	
Capital assets: (note 1)	
Land	16,888
Plant, equipment and lines	9,496,310
Less accumulated depreciation	<u>(3,160,703)</u>
Total Noncurrent Assets	<u>6,352,495</u>
Total Assets	<u><u>\$ 6,808,859</u></u>

LIABILITIES

Current Liabilities	
Accrued expenses	\$ 60,390
Bonds payable (note 2)	-
Payable from restricted assets	<u>117,396</u>
Total Current Liabilities	<u>177,786</u>
Noncurrent Liabilities	
Notes payable (note 3)	-
Bonds payable (note 2)	<u>1,852,800</u>
Total Noncurrent Liabilities	<u>1,852,800</u>
Total Liabilities	<u>2,030,586</u>

NET POSITION

Net investment in capital assets	4,499,695
Restricted	144,339
Unrestricted	<u>134,239</u>
Total Net Position	<u><u>\$ 4,778,273</u></u>

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

POWELL'S VALLEY WATER DISTRICT
 Statement of Revenues, Expenses and Changes in Fund Net Position
 Proprietary Fund
 for the year ended December 31, 2014

Operating Revenues	
User fees	\$ 1,167,458
Other water revenue	<u>42,088</u>
Total Operating Revenues	<u>1,209,546</u>
Expenses	
Water purchased	361,064
Salaries	237,730
Office	12,983
Insurance	28,534
Taxes	22,525
Outside services	43,649
Employee benefits	187,493
Miscellaneous	2,676
Depreciation	207,184
Supplies	82,231
Utilities	89,843
Vehicle expense	<u>28,389</u>
Total Operating Expenses	<u>1,304,301</u>
Operating Income (Loss)	<u>(94,755)</u>
Nonoperating Revenues (Expenses)	
Miscellaneous income	2,933
Interest income	1,414
Interest expense	<u>(84,084)</u>
Net Nonoperating Revenues (Expenses)	<u>(79,737)</u>
Change in Net Position	(174,492)
Total Net Position - beginning	<u>4,952,765</u>
Total Net Position - ending	<u><u>\$ 4,778,273</u></u>

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

POWELL'S VALLEY WATER DISTRICT
Statement of Cash Flows
Proprietary Fund Type
December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 1,204,398
Cash paid to employees	(237,730)
Cash paid for general and administrative expenses	<u>(854,781)</u>
Net Cash provided/(used) by operating activities	<u>111,887</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	1,414
Customer deposits	<u>2,271</u>
Net Cash provided/(used) by investing activities	<u>3,685</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Miscellaneous revenue	2,933
Bond payments	(50,400)
Purchase of assets	(8,553)
Interest paid	<u>(84,084)</u>
Net Cash provided/(used) in capital and financing activities	<u>(140,104)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,532)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>374,064</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 349,532</u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (94,755)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
decrease in prepaid	357
(increase) in inventory	(398)
depreciation	207,184
(increase) in accounts receivable	(5,148)
increase in accounts payable	<u>4,647</u>
Net cash provided/(used) by operating activities	<u>\$ 111,887</u>

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

POWELL'S VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

Note 1 - Summary of Significant Accounting Policies

The Powell's Valley Water District is a water utility which services areas of Powell County. Its sales are primarily to residential customers. The District is a corporate body set forth in KRS 74.070 which was created November 1961. The District is subject to the regulatory authority of The Kentucky Public Service Commission pursuant to KRS 278.040.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Powell's Valley Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside \$77,798 into this fund at December 31, 2014.

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2014 was \$112,918. The District had set aside \$112,918.

Enterprise Funds

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are operating grants and tenant rental revenue. Operating expenses of the Authority include the cost of producing the revenue and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded at cost as an asset at that time.

Deposits

The District considers all highly liquid investments with a maturity date of three months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents. At December 31, 2014, the carrying amount of the District's deposits was \$349,532 and the bank balance was \$356,671. Of the bank balance 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Capital Assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Lines and tanks	50 years
Equipment	10 years

The District's capitalization policy is as follows: expenditures costing more than \$1000 with an estimated useful life greater than one year are capitalized: all others are expensed.

Accounts Receivable

The receivable reflected in the statements in the amount of \$96,528 are net of allowance for uncollectibles in the amount of \$17,443.

Net Position

Net position represents the difference between assets and liabilities. Invested in capital assets- net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

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 the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Bonds Payable

The amount shown in the accompanying financial statements as bonds payable represents the District's future obligation to make payments from future revenues. At December 31, 2014, seven separate bonds had outstanding balances. Details of each of these bonds are summarized as follows:

Note A

Lender – Rural Development

Balance of loan - \$133,500

Rate - 5%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note B

Lender – Rural Development

Balance of loan - \$126,000

Rate – 5%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note C

Lender – Rural Development

Balance of loan - \$452,000

Rate – 4.5%

Principal due – January 1

Interest due – January 1 and July 1

Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note D

Lender – Rural Development

Balance of loan - \$321,500

Rate – 4.5%

Principal due – January 1

Interest due – January 1 and July 1

Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note E

Lender – Rural Development

Balance of loan - \$262,000

Rate – 4.5%

Principle due – January 1

Interest due – January 1 and July 1

Prepayment provision – subject to payment prior to its state maturity without penalty or premium, at any time upon ten (10) days notice.

Note F

Lender – Rural Development

Balance of loan - \$533,000

Rate – 4.5%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note G

Lender – Rural Development

Balance of loan - \$24,800

Rate – 4.375%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Five-Year Maturities	
2014	80,000
2015	82,500
2016	85,000
2017	87,500
2018	90,000
Thereafter	<u>1,427,800</u>
	<u>\$1,852,800</u>

A summary of all bonds outstanding follows:

	Outstanding 1/1/2014	Issued	Retired	Outstanding 12/31/2014	Due Within One Year
Rural Development	\$ 1,903,200	\$ -	\$ 50,400	\$ 1,852,800	\$ 80,000

Note 3 - Pension Plan

The District provides pension benefits for its employees through the County Employees Retirement System(CERS). In this type of plan, the monthly retirement benefit is based upon several factors, primarily of which is the length of service, the systems benefit factor (2.5%), and the average of the five highest fiscal year wages from all public employee's retirement system participation (CERS, KERS, & SPRS). All employees who work an average of 100 hours per month over a fiscal year may participate with CERS.

The plan currently requires the District to contribute an amount equal to 18.89/17.67% of the employee's base salary each month, with employees required to contribute 5%. The District's contribution will vary, depending on the dictates of the management of the county plan. The required employer's contribution is usually reviewed at least annually.

The District's total payroll in fiscal year 2014 was \$237,730 and its contributions were calculated using the base salary amount of \$227,110. Contributions to the plan were \$11,356 and \$41,704 by the employees and the District, respectively.

Note 4 - Leave Policies

Annual and Sick Leave

The District no longer requires that sick and annual leave be paid annually. No additional accrued leave days are permitted. District employees accrue sick leave at the rate of one day per month. They accrue annual leave at the rate of five days per year for less than three years employment and ten days for employment exceeding three years and fifteen days for employment exceeding ten years. No leave may be collected on termination.

Note 5 - Changes in Capital Assets

The following is a summary of changes in the capital assets for the fiscal year:

	Balance 1/1/2014	Transfers/ Additions	Deletions	Balance 12/31/2014
Land, non-depreciable	\$ 16,888			\$ 16,888
Plant, equipment & lines	9,487,757	8,553		9,496,310
Construction in process	-	-	-	-
Total	<u>\$ 9,504,645</u>	<u>\$ 8,553</u>	<u>\$ -</u>	<u>\$ 9,513,198</u>
Accumulated depreciation	<u>\$ 2,953,519</u>	<u>\$ 207,184</u>	<u>\$ -</u>	<u>\$ 3,160,703</u>
Capital assets, net of accumulated depreciation	<u>\$ 6,551,126</u>	<u>\$ (198,631)</u>	<u>\$ -</u>	<u>\$ 6,352,495</u>

Note 6 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account. The District also must transfer \$456 per month into a depreciation fund.

Note 7 - Restricted Cash

Restricted cash is composed of the following:

Deposit account	\$ 71,019
Depreciation reserve fund	77,798
Debt reserve fund	<u>112,918</u>
	\$ 261,735

Note 8 – Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2014. Areas of noncompliance, if any, as a result of examinations would be included as a part of the “Findings and Questioned Costs” section of this report.

Note 9 – Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

SUPPLEMENTAL INFORMATION

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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
Powell's Valley Water District
Clay City, Kentucky

We have audited the financial statements of the business-type activities of the Powell's Valley Water District, as of and for the year ended December 31, 2014, and have issued our report thereon dated April 16, 2015. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell's Valley Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Powell's Valley Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Powell's Valley Water District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting (2014-01). 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Powell's Valley Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

April 16, 2015

POWELL'S VALLEY WATER DISTRICT
 COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
 for the years ended December 31, 2013 and 2014

	<u>2013</u>	<u>2014</u>
Revenues		
User fees	\$ 1,150,242	\$ 1,167,458
Other water revenue	<u>40,402</u>	<u>42,088</u>
Total Revenues	<u>1,190,644</u>	<u>1,209,546</u>
Expenses		
Water purchased	336,950	361,064
Salaries	231,083	237,730
Office	12,908	12,983
Insurance	29,291	28,534
Taxes	22,218	22,525
Outside services	37,762	43,649
Employee benefits	197,938	187,493
Miscellaneous	6,828	2,676
Depreciation	207,012	207,184
Supplies	74,845	82,231
Utilities	87,908	89,843
Vehicle expense	<u>23,501</u>	<u>28,389</u>
Total Operating Expenses	<u>1,268,244</u>	<u>1,304,301</u>
Operating Income (Loss)	<u>(77,600)</u>	<u>(94,755)</u>
Nonoperating Revenues (Expenses)		
Miscellaneous income	9,928	2,933
Interest income	1,419	1,414
Interest expense	<u>(86,688)</u>	<u>(84,084)</u>
Net Nonoperating Revenues (Expenses)	<u>(75,341)</u>	<u>(79,737)</u>
Change in Net Position	<u>\$ (152,941)</u>	<u>\$ (174,492)</u>

POWELL'S VALLEY WATER DISTRICT
 STATEMENT OF REVENUES AND EXPENSES
 WATER AND SEWER
 for the year ended December 31, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Revenues			
User fees	\$ 1,087,638	\$ 79,820	\$ 1,167,458
Other water revenue	<u>42,088</u>	<u>-</u>	<u>42,088</u>
Total Revenues	<u>1,129,726</u>	<u>79,820</u>	<u>1,209,546</u>
Expenses			
Water purchased	361,064	-	361,064
Salaries	237,730	-	237,730
Office	12,656	327	12,983
Insurance	13,884	14,650	28,534
Taxes	21,590	935	22,525
Outside services	40,384	3,265	43,649
Employee benefits	187,493	-	187,493
Miscellaneous	2,466	210	2,676
Depreciation	187,574	19,610	207,184
Supplies	53,257	28,974	82,231
Utilities	71,403	18,440	89,843
Vehicle expense	<u>28,389</u>	<u>-</u>	<u>28,389</u>
Total Operating Expenses	<u>1,217,890</u>	<u>86,411</u>	<u>1,304,301</u>
Operating Income (Loss)	<u>(88,164)</u>	<u>(6,591)</u>	<u>(94,755)</u>
Nonoperating Revenues (Expenses)			
Miscellaneous income	2,992	(59)	2,933
Interest income	1,353	61	1,414
Interest expense	<u>(71,772)</u>	<u>(12,312)</u>	<u>(84,084)</u>
Net Nonoperating Revenues (Expenses)	<u>(67,427)</u>	<u>(12,310)</u>	<u>(79,737)</u>
Change in Net Position	<u>\$ (155,591)</u>	<u>\$ (18,901)</u>	<u>\$ (174,492)</u>

POWELL'S VALLEY WATER DISTRICT
Clay City, Kentucky
Schedule of Findings
December 31, 2014

PRIOR FINDINGS

13-01 Lack of Segregation of Duties – repeated as 13-01

CURRENT FINDINGS

2014-01 Lack of Segregation of Duties

Condition: The District has an inadequate segregation of duties within its internal control process.

Criteria: All governmental entities should design their internal control to provide an adequate segregation of duties.

Cause: The District does not have sufficient employees to adequately design its internal control.

Recommendation: The District should continue to design and implement its internal control policies to provide the maximum segregation of duties possible.

Response: We will do as recommended.