

SOUTHEAST DAVIESS COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2014 AND 2013

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Contents
December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Southeast Daviess County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Daviess County Water District (District), a component unit of the Daviess County Fiscal Court, Kentucky, as of and for the years ended December 31, 2014 and 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Southeast Daviess County Water District as of December 31, 2014 and 2013, and the results of its operations and its cash flows 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 budgetary comparison information on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015 on our consideration of Southeast Daviess 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 Southeast Daviess County Water District's internal control over financial reporting and compliance.

Alexander & Company CPAS PSC

Owensboro, Kentucky

March 27, 2015

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
CURRENT ASSETS		
Cash	\$ 317,637	\$ 528,473
Accounts receivable	288,698	292,104
Investments	2,258,747	1,886,767
Interest receivable	3,802	3,559
Prepaid insurance	17,097	15,343
Inventory	<u>90,889</u>	<u>113,452</u>
TOTAL CURRENT ASSETS	<u>2,976,870</u>	<u>2,839,698</u>
RESTRICTED FUNDS		
Cash - Meter Setting Fund	156,499	104,583
Cash - Medical Reimbursement Fund	71,950	123,374
Investments - customer deposits	135,035	127,795
Investments - medical reimbursement	303,354	200,952
Interest receivable	<u>683</u>	<u>628</u>
TOTAL RESTRICTED ASSETS	<u>667,521</u>	<u>557,332</u>
CAPITAL ASSETS		
Land	56,350	56,350
Water plant	11,061,091	10,701,691
Construction in progress	<u>-</u>	<u>80,396</u>
	11,117,441	10,838,437
Less accumulated depreciation	<u>(3,877,320)</u>	<u>(3,638,637)</u>
NET CAPITAL ASSETS	<u>7,240,121</u>	<u>7,199,800</u>
TOTAL ASSETS	<u><u>\$ 10,884,512</u></u>	<u><u>\$ 10,596,830</u></u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	\$ 230,038	\$ 294,777
Accrued pension	18,613	18,540
Accrued school and sales taxes	5,276	5,341
Payroll taxes and withholding	6,404	6,411
Accrued payroll	10,806	11,016
 Current liabilities payable from restricted assets:		
Accounts payable	<u>9,869</u>	<u>5,094</u>
 TOTAL CURRENT LIABILITIES	<u>281,006</u>	<u>341,179</u>
 NONCURRENT LIABILITIES		
Customer deposits payable from restricted assets	<u>135,035</u>	<u>127,795</u>
 TOTAL LIABILITIES	<u>416,041</u>	<u>468,974</u>
 NET POSITION		
Net investment in capital assets	7,240,121	7,199,800
Unrestricted	<u>3,228,350</u>	<u>2,928,056</u>
 TOTAL NET POSITION	<u>10,468,471</u>	<u>10,127,856</u>
 TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 10,884,512</u></u>	<u><u>\$ 10,596,830</u></u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Water sales	\$ 2,017,953	\$ 1,953,042
Tap on fees	179,035	112,695
Miscellaneous service revenues	<u>103,962</u>	<u>94,258</u>
TOTAL OPERATING REVENUES	<u>2,300,950</u>	<u>2,159,995</u>
OPERATING EXPENSES		
Advertising	448	1,105
Audit, accounting and legal	7,600	7,400
Bad debts	7,849	6,732
Board member fees	9,000	9,000
Depreciation	285,051	268,694
Education and seminars	739	1,635
Employee benefits	151,954	152,181
Engineering	-	55
Insurance	32,451	28,570
Materials, supplies, and repairs	72,854	68,163
Miscellaneous	7,447	8,449
Office supplies and expense	37,941	37,691
Payroll taxes	25,633	25,461
Phone and communication	3,518	3,773
PSC assessment	3,996	3,779
Rent of real estate	5,846	5,846
Salaries and wages	335,067	328,320
Transportation	40,420	38,451
Uniforms	2,376	2,256
Utilities	48,755	45,392
Water purchased	972,053	908,415
Water tests and meter service	<u>10,983</u>	<u>9,323</u>
TOTAL OPERATING EXPENSES	<u>2,061,981</u>	<u>1,960,691</u>
INCOME FROM OPERATIONS	<u>238,969</u>	<u>199,304</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	32,984	30,227
Interest expense	(193)	(315)
Gain from disposal of assets	<u>4,450</u>	<u>2,890</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>37,241</u>	<u>32,802</u>
INCOME BEFORE CONTRIBUTIONS	<u>276,210</u>	<u>232,106</u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CONTRIBUTED CAPITAL REVENUE		
Contributions in aid of construction	<u>\$ 64,405</u>	<u>\$ 63,458</u>
TOTAL CONTRIBUTED CAPITAL REVENUE	<u>64,405</u>	<u>63,458</u>
CHANGE IN NET POSITION	340,615	295,564
NET POSITION, BEGINNING OF YEAR	<u>10,127,856</u>	<u>9,832,292</u>
NET POSITION, END OF YEAR	<u><u>\$ 10,468,471</u></u>	<u><u>\$ 10,127,856</u></u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,311,596	\$ 2,151,303
Cash payments to employees for services	(525,913)	(516,650)
Cash payments for goods and services	<u>(1,290,381)</u>	<u>(1,059,602)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>495,302</u>	<u>575,051</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(260,967)	(240,684)
Interest paid	<u>(193)</u>	<u>(315)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(261,160)</u>	<u>(240,999)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments - net	(481,622)	(29,335)
Interest on investments	32,686	30,109
Proceeds from sale of property	<u>4,450</u>	<u>3,850</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(444,486)</u>	<u>4,624</u>
NET INCREASE (DECREASE) IN CASH	(210,344)	338,676
CASH AT BEGINNING OF YEAR	<u>756,430</u>	<u>417,754</u>
CASH AT END OF YEAR	<u><u>\$ 546,086</u></u>	<u><u>\$ 756,430</u></u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income from operations	<u>\$ 238,969</u>	<u>\$ 199,304</u>
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	285,051	268,694
(Increase) decrease in:		
Accounts receivable	3,406	(13,947)
Prepaid insurance	(1,754)	(2,375)
Inventory	22,563	2,286
Increase (decrease) in:		
Accounts payable	(59,964)	113,542
Accrued pension	73	449
Accrued school and sales tax	(65)	89
Accrued payroll	(210)	962
Payroll taxes and withholding	(7)	792
Customer deposits	<u>7,240</u>	<u>5,255</u>
Total adjustments	<u>256,333</u>	<u>375,747</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 495,302</u></u>	<u><u>\$ 575,051</u></u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Southeast Daviess County Water District (District) is a component unit of the Daviess County Fiscal Court, Kentucky and, therefore, is part of the financial reporting entity of the Daviess County Fiscal Court. The District is a water utility which operates in the rural section of Southeast Daviess County, Kentucky, and its sales are primarily to residential customers.

Proprietary Fund

The District is classified as a proprietary fund type. Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are the determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary funds' activities are included on its statement of net position.

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Government Accounting Standards Board (GASB) pronouncements.

The accrual basis of accounting is used for proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Regulation

The District's utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the Commonwealth of Kentucky, Public Service Commission. The District's accounting policies recognize the financial effects of the rate making and accounting practices and policies of the Public Service Commission.

Accounts Receivable

The District follows a monthly billing cycle. When meter reading is delayed, estimated bills are rendered based on the average of the three previous bills in order to promote consistency of water revenue.

The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established based on a favorable history over a substantial period of time. If an account becomes more than sixty days overdue, it will be charged to operations using the direct write-off method.

Management Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating Revenue

Operating revenue is recognized upon completion of monthly meter readings. At the end of each month, water service which has been rendered from the latest meter reading to the end of the month is unbilled.

Inventory

Inventory consists of materials and supplies and is stated at lower of cost (determined on the first-in, first-out basis) or market.

Water Plant

Water plant is stated at original cost (cost of the property to whoever first devoted it to public service). The cost of labor for additions to the water plant constructed by the District's employees is not capitalized.

Capital Assets

Utility plant assets are stated at cost. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

Depreciation is provided on the basis of the estimated useful lives of assets using the straight-line method. Depreciation expense was \$ 285,051 and \$ 268,694 for the years 2014 and 2013, respectively. Estimated useful lives of major class of the water plant in service are as follows:

Pumping system	10-50 years
Transmission and distribution system	30-70 years
General plant	5-30 years

Cash Flows Information

For the purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Noncash financing activities for 2014 and 2013, representing water lines donated to the District, were \$ 64,405 and \$ 63,458 respectively.

Cash at year end consists of:

	<u>2014</u>	<u>2013</u>
Cash	\$ 317,637	\$ 528,473
Cash – Meter Setting Fund	156,499	104,583
Cash – Medical Reimbursement Fund	<u>71,950</u>	<u>123,374</u>
	<u>\$ 546,086</u>	<u>\$ 756,430</u>

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

NOTE B – CASH DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, the District's bank balances were exposed to custodial credit risk as follows:

	<u>2014</u>	<u>2013</u>
Bank balances	\$ 3,243,454	\$ 2,972,402
FDIC insured	(721,036)	(465,324)
Uninsured and covered by collateral	<u>(2,522,418)</u>	<u>(2,507,078)</u>
Uninsured and not covered by collateral	<u>\$ -</u>	<u>\$ -</u>

Investments

Investments consist of six certificates of deposit at local banks as of December 31, 2014. The first certificate of deposit has a value of \$556,525. This certificate pays an interest rate of .75% with a maturity date of February 12, 2016. The second certificate of deposit has a value of \$556,525. This certificate pays an interest rate of 1.05% with a maturity date of November 12, 2016. The third certificate of deposit has a value of \$556,525. This certificate pays an interest rate of 1.50% with a maturity date of November 12, 2017. The fourth certificate of deposit has a value of \$556,525. This certificate pays an interest rate of 1.95% with a maturity date of November 12, 2018. The fifth certificate of deposit has a value of \$248,183. This certificate pays an interest rate of .90% with a maturity date of August 13, 2015. The sixth certificate of deposit has a value of \$222,853. This certificate is a five year step up certificate of deposit with a current and final rate of 4.00% with a maturity date of September 16, 2015.

Investments consist of three certificates of deposit at local banks as of December 31, 2013. The first certificate of deposit has a value of \$1,799,238. This certificate pays an interest rate of 1.19% with a maturity date of November 4, 2014. The second certificate of deposit has a value of \$200,952. This certificate pays an interest rate of 1.19% with a maturity date of November 4, 2014. The third certificate of deposit is a five year stepped rate with a maturity date of September 16, 2015. This CD has a value of \$215,324 and pays a beginning interest rate of 1.00% with a .74% increase every 12 months for a maximum of four increases. Investments are shown on the Statement of Net Position as:

	<u>2014</u>	<u>2013</u>
Investments	\$ 2,258,747	\$ 1,886,767
Investments – customer deposits	135,035	127,795
Investments – medical reimbursement	<u>303,354</u>	<u>200,952</u>
	<u>\$ 2,697,136</u>	<u>\$ 2,215,514</u>

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

NOTE B – CASH DEPOSITS AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United State government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District's investment policy only allows investment choices that are in compliance with the state statutes. All investments held by the District are insured or collateralized with securities held by the District or by its agent in the District's name.

Concentration of Credit Risk

The District's investment policy places no limit on the amount the District may invest in any one issuer. The District's investments consist of collateralized certificate of deposits at two local banks.

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
Capital assets not depreciated:				
Land	\$ 56,350	\$ -	\$ -	\$ 56,350
Construction in progress	80,396	14,356	94,752	-
Total capital assets not depreciated	<u>136,746</u>	<u>14,356</u>	<u>94,752</u>	<u>56,350</u>
Capital assets depreciated:				
Buildings	144,240	3,245	1,138	146,347
Pumping stations	894,877	111,919	-	1,006,796
Equipment	219,845	68,267	43,924	244,188
Tanks, lines, meters and hydrants	9,442,729	226,257	5,226	9,663,760
Total capital assets depreciated	<u>10,701,691</u>	<u>409,688</u>	<u>50,288</u>	<u>11,061,091</u>
Less accumulated depreciation:				
Buildings	103,008	6,868	1,138	108,738
Pumping stations	311,523	29,426	-	340,949
Equipment	151,666	20,158	43,923	127,901
Tanks, lines, meters and hydrants	3,072,440	228,599	1,307	3,299,732
Total accumulated depreciation	<u>3,638,637</u>	<u>285,051</u>	<u>46,368</u>	<u>3,877,320</u>
Total capital assets depreciated, net	<u>7,063,054</u>	<u>124,637</u>	<u>3,920</u>	<u>7,183,771</u>
Total capital assets, net	<u>\$ 7,199,800</u>	<u>\$ 138,993</u>	<u>\$ 98,672</u>	<u>\$ 7,240,121</u>

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

NOTE C – CAPITAL ASSETS (continued)

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

	Balance January 1, 2013	Additions	Deletions	Balance December 31, 2013
Capital assets not depreciated:				
Land	\$ 56,350	\$ -	\$ -	\$ 56,350
Construction in progress	-	80,396	-	80,396
Total capital assets not depreciated	<u>56,350</u>	<u>80,396</u>	<u>-</u>	<u>136,746</u>
Capital assets depreciated:				
Buildings	144,240	-	-	144,240
Pumping stations	884,377	10,500	-	894,877
Equipment	234,290	9,423	23,868	219,845
Tanks, lines, meters and hydrants	9,243,859	218,682	19,812	9,442,729
Total capital assets depreciated	<u>10,506,766</u>	<u>238,605</u>	<u>43,680</u>	<u>10,701,691</u>
Less accumulated depreciation:				
Buildings	96,167	6,841	-	103,008
Pumping stations	289,776	21,747	-	311,523
Equipment	156,742	17,832	22,908	151,666
Tanks, lines, meters and hydrants	2,855,119	222,274	4,953	3,072,440
Total accumulated depreciation	<u>3,397,804</u>	<u>268,694</u>	<u>27,861</u>	<u>3,638,637</u>
Total capital assets depreciated, net	<u>7,108,962</u>	<u>(30,089)</u>	<u>15,819</u>	<u>7,063,054</u>
Total capital assets, net	<u>\$ 7,165,312</u>	<u>\$ 50,307</u>	<u>\$ 15,819</u>	<u>\$ 7,199,800</u>

NOTE D – PENSION PLAN

The District has a money purchase pension plan covering substantially all employees. The District's policy is to fund pension cost accrued. Pension expense was \$ 36,592 for 2014 and \$ 35,838 for 2013.

NOTE E – RESTRICTED FUNDS

Cash and investments held by fiscal agents or in trusts are classified as restricted funds and liabilities to be paid by the fiscal agents or trusts are classified as liabilities payable from restricted funds.

NOTE F – CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction represent additions to the water plant through extensions of the water distribution system. These additions are funded by individual users through payments made directly to the District or to independent contractors. Contributions to the water distribution system amounted to \$ 64,405 for 2014 and \$ 63,458 for 2013.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

NOTE G – INCOME TAX STATUS

The District is exempt from federal and state income taxes and, accordingly, no provision for such taxes has been made.

NOTE H – OPERATING AND ADMINISTRATION EXPENSES

The District shares office space and personnel with the West Daviess County Water District. Administrative expenses and operating salaries and wages are allocated between the two water districts based upon management's estimated usage. Currently 55% of those expenses are allocated to the District.

NOTE I – LEASING ARRANGEMENTS

The District conducts its operations from facilities which are constructed upon land leased for a period of ten years commencing March 1, 1982. The lease provides that the lessee shall have the right to extend this lease for additional five-year periods. Unless notice is given to cancel this lease sixty (60) days before the end of the original period or any extension thereof, then such extension shall be automatic.

In the event of one or more extensions, the rental shall be increased during such extensions by an amount equal to 10% of the rent set in the preceding period. The District renewed the option to extend the lease in February, 2012.

The following is a schedule of future minimum rental payments required under the above lease as of December 31, 2014.

<u>Year Ended</u> <u>December 31</u>	<u>Amount</u>
2015	\$ 5,846
2016	5,846
2017	487
	<u>\$ 12,179</u>

NOTE J – SUPPLIER

The District purchases all of its water for resale from the City Utility Commission of the City of Owensboro, Kentucky operating as Owensboro Municipal Utilities (OMU).

NOTE K – NET POSITION

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets; restricted; and unrestricted net assets. Invested in capital assets consists of all capital assets, net of accumulated depreciation. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net assets not included in the above categories.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

NOTE K – NET POSITION (continued)

Included in restricted net position at December 31,

	<u>2014</u>	<u>2013</u>
Investments – Customer Deposits	\$ 135,035	\$ 127,795
Less: Restricted Liabilities	<u>135,035</u>	<u>127,795</u>
Restricted Net Position	<u>\$ -</u>	<u>\$ -</u>

NOTE L – SUBSEQUENT EVENTS

The District did not have any subsequent events through March 27, 2015, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2014.

SUPPLEMENTAL INFORMATION

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Budgetary Comparison Schedule
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES	<u>\$ 2,333,000</u>	<u>\$ 2,333,000</u>	<u>\$ 2,300,950</u>	<u>\$ (32,050)</u>
OPERATING EXPENSES				
Operation and maintenance expense	1,811,500	1,811,500	1,772,934	38,566
Depreciation expense	275,000	275,000	285,051	(10,051)
Taxes other than income	3,700	3,700	3,996	(296)
TOTAL OPERATING EXPENSES	<u>2,090,200</u>	<u>2,090,200</u>	<u>2,061,981</u>	<u>28,219</u>
INCOME FROM OPERATIONS	<u>242,800</u>	<u>242,800</u>	<u>238,969</u>	<u>(3,831)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	32,000	32,000	32,984	984
Interest expense	(1,700)	(1,700)	(193)	1,507
Gain from disposal of assets	-	-	4,450	4,450
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>30,300</u>	<u>30,300</u>	<u>37,241</u>	<u>6,941</u>
INCOME BEFORE CONTRIBUTIONS	<u>273,100</u>	<u>273,100</u>	<u>276,210</u>	<u>3,110</u>
CONTRIBUTED CAPITAL REVENUE	<u>50,000</u>	<u>50,000</u>	<u>64,405</u>	<u>14,405</u>
CHANGE IN NET POSITION	<u>\$ 323,100</u>	<u>\$ 323,100</u>	<u>\$ 340,615</u>	<u>\$ 17,515</u>



**INDEPENDENT AUDITORS' 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
Southeast Daviess County Water District

We have audited, 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, the financial statements of Southeast Daviess County Water District (District) as of and for the year ended December 31, 2014, 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 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southeast Daviess 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 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses as 14-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Daviess 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 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 that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Altman & Company CPAs PC

Owensboro, Kentucky
March 27, 2015

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2014

SUMMARY OF AUDITORS' RESULTS

1. An unqualified opinion was issued on the financial statements for the year ended December 31, 2014.
2. One significant deficiency in internal control was disclosed during the audit.
3. The audit did not disclose any noncompliance which was material to the financial statements.

FINDINGS – FINANCIAL STATEMENT AUDIT

14-1 Significant Deficiency:

Segregation of Duties:

Condition: The small size of the District's accounting staff limits the extent of the separation of duties. Presently, the accountant's responsibilities include cash receipts and cash disbursements functions, preparing bank reconciliations and accounting functions. Consequently, the separation of duties, which is the basic premise of a good internal control structure, is limited.

Criteria: The District does not have adequate segregation of duties over the handling of cash receipts and disbursements and the accounting functions.

Cause: Limited number of personnel.

Effect: By not having the proper segregation of duties, misappropriation of cash could occur or a misstatement made and not be timely detected by management.

Recommendation: We recommend the District divide the different responsibilities of handling cash receipts and disbursements among various employees.

Management's Response: Due to the limited number of personnel, management believes that an adequate segregation of duties is not achievable and that the costs of correcting the weakness would exceed the benefits that would be derived.