

WEST MCCRACKEN COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
With Independent Auditor's Report**

YEARS ENDED DECEMBER 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
West McCracken County Water District
West Paducah, Kentucky

We have audited the accompanying financial statements of the business-type activities of the West McCracken 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the West McCracken 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 conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the West McCracken County Water District's basic financial statements. The supplemental schedule of insurance in force is presented for purposes of additional analysis and is not a required part of the financial statements of basic financial statements. The schedule of insurance in force has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2014 on our consideration of West McCracken County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West McCracken County Water District's internal control over financial reporting and compliance.

Kemper CPA Group, LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
February 20, 2014

WEST MCCRACKEN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 25,099	\$ 18,484
Accounts receivable, less allowance for doubtful accounts of \$3,959 and \$3,959, respectively	68,623	68,692
Prepaid expenses	6,794	4,470
Inventory, at cost	9,250	17,545
Total current assets	109,766	109,191
RESTRICTED ASSETS		
Checking and Cash Management Accounts		
Depreciation and sinking funds held by District	50,010	9,702
Construction and sinking funds held in trust	58,901	62,507
Total restricted assets	108,911	72,209
NON-CURRENT ASSETS		
Capital Assets		
Water system, at cost	7,806,540	7,780,753
Accumulated Depreciation	(2,957,043)	(2,768,682)
Net capital assets	4,849,497	5,012,071
Unamortized Bond Discount and Issue Costs	-	12,467
Total non-current assets	4,849,497	5,024,538
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	13,577	-
Total Assets	5,081,751	5,205,938

The notes to financial statements are an integral part of this statement.

	<u>2013</u>	<u>2012</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 27,286	\$ 26,499
Accrued interest payable	8,938	10,691
Bonds payable – current	40,000	42,000
Accrued and withheld payroll taxes	3,771	3,184
Line of credit	-	23,000
Other current liabilities	6,931	6,331
	<u>86,926</u>	<u>111,705</u>
NON-CURRENT LIABILITIES		
Long-term liabilities, non-current	<u>544,068</u>	<u>576,000</u>
	<u>630,994</u>	<u>687,705</u>
NET POSITION		
Invested in capital assets, net of related debt	4,265,429	4,371,071
Restricted for debt service and construction	108,911	72,209
Unrestricted	<u>76,417</u>	<u>74,953</u>
	<u>\$ 4,450,757</u>	<u>\$ 4,518,233</u>

The notes to financial statements are an integral part of this statement.

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

	2013	2012
OPERATING REVENUE		
Sales of water, net of refunds	\$ 714,639	\$ 727,393
Penalties	10,510	11,695
Service charge – fire department	600	600
Other	16,438	17,778
Total operating revenues	742,187	757,466
OPERATING EXPENSES		
Depreciation expense	203,768	204,792
Amortization expense	937	1,924
Utility regulation assessment fee	1,261	1,034
Salaries	141,788	168,950
Employee pension and benefits	37,194	44,561
Purchased water	219,533	211,776
Purchased power	8,349	8,905
Chemicals	550	1,071
Materials and supplies	28,677	30,368
Contractual services	23,889	22,684
Transportation expense	9,521	12,170
Insurance	37,234	41,244
Advertising	496	227
Bad debt expense	9,254	1,295
Miscellaneous	52,131	39,484
Total operating expenses	774,582	790,485
Operating income (loss)	(32,395)	(33,019)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	54	13
Interest expense	(16,664)	(28,069)
Non-utility income - other	7	-
Non-utility expenses - debt issue costs	(23,911)	-
Gain (loss) on disposal of assets	(1,352)	(772)
Tap-on fees	6,785	14,388
Total non-operating revenues (expenses)	(35,081)	(14,440)
Changes in net position	(67,476)	(47,459)
TOTAL NET POSITION - BEGINNING	4,518,233	4,565,692
TOTAL NET POSITION - ENDING	\$ 4,450,757	\$ 4,518,233

The notes to financial statements are an integral part of this statement.

WEST MCCrackEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections from customers	\$ 742,256	\$ 747,412
Cash paid to suppliers	(385,290)	(383,002)
Cash paid to employees for salaries and benefits	(178,395)	(215,439)
CASH FLOWS PROVIDED BY		
OPERATING ACTIVITIES	178,571	148,971
 CASH FLOWS FROM CAPITAL AND RELATED		
FINANCING ACTIVITIES		
Purchases of property, plant and equipment	(42,621)	(51,602)
Proceeds from bonds issued net of \$14,987 issue costs	572,300	-
Payments on bonds payable	(618,000)	(40,000)
Proceeds from line of credit	-	20,000
Payments on line of credit	(23,000)	(45,000)
Interest payments on notes and bonds payable	(16,664)	(28,069)
Decrease (increase) in deferred charges	(14,190)	-
Contributed capital - tap-on fees	6,785	14,388
Non-utility income	7	-
Proceeds from disposal of equipment	75	703
CASH FLOWS USED BY		
CAPITAL ACTIVITIES	(135,308)	(129,580)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	54	13
CASH FLOWS PROVIDED BY		
INVESTING ACTIVITIES	54	13
 NET INCREASE IN CASH AND		
CASH EQUIVALENTS	43,317	19,404
 CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	90,693	71,289
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 134,010	\$ 90,693

The notes to financial statements are an integral part of this statement.

WEST MCCRACKEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2013 and 2012

	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (32,395)	\$ (33,019)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	204,705	206,716
Changes in operating assets and liabilities:		
Accounts receivable	69	(10,054)
Prepaid expenses	(2,324)	4,133
Inventory	8,295	(3,618)
Accounts payable	787	(11,970)
Accrued interest payable	(1,753)	(574)
Accrued and withheld payroll taxes	587	(1,928)
Other current liabilities	600	(715)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 178,571	\$ 148,971

The notes to financial statements are an integral part of this statement.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Entity

The West McCracken County Water District (the District) is incorporated as a non-profit corporation formed under the provisions of Chapter 273 of the Kentucky Revised Statutes. The District began operations in 1968. The District provides water service to consumers in Western McCracken County, Kentucky.

The District follows the standards promulgated by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The financial statements include all operations over which the District is financially accountable. The District is not a participant in any joint venture and has not identified any entities which would be component units of the District.

Fund Accounting

The District maintains its accounts under the fund method of accounting, and utilizes the chart of accounts established by the Kentucky Public Service Commission. The District's one fund is classified as a business-type fund under the category of Proprietary Fund Type.

Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises 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.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Fund equity (i.e., total net position) is segregated into three components – 1) Invested in capital assets, net of related debt; 2) Restricted; and 3) Unrestricted. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

The accrual basis of accounting is utilized by the proprietary fund type. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the System are charges for water service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Credit Policies

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 15 days from the invoice date. Unpaid accounts receivable with invoice mailing dates over 15 days old are subject to a 10% penalty on the outstanding balance. Customers are subject to disconnection after 20 days past invoice date. Reconnections are subject to reconnect fees which are recognized as income when received.

Accounts receivable are stated at amounts billed to the customer plus any accrued penalties. Customer account balances with invoices dated over 90 days old are considered delinquent.

Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amounts of accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews accounts receivable balances that exceed 90 days from invoice date and based on an assessment of current credit worthiness, estimates the portion, if any, of the balance that will not be collected. Additionally, for the remaining aggregate accounts, management establishes a general allowance based on historical averages.

Inventory

Inventory is stated at the lower of cost, on a first-in, first-out basis, or market.

Property, Plant and Equipment

Property and equipment are recorded at cost with depreciation provided by the straight-line method over the estimated useful life of the depreciable property. Land and construction in progress are not depreciated. Estimated useful lives are generally those established by the Public Service Commission of the Commonwealth of Kentucky as the following:

<u>Capital asset classes</u>	<u>Lives</u>
Water System	10-50
Vehicles	5-10
Equipment & Furniture	5-10

Donated assets are stated at fair value on the date donated. The System generally capitalizes assets with cost of \$750 or more as purchase or construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded.

Unamortized Bond Discount and Issue Costs

Certain costs were incurred when the Kentucky Rural Water Finance Corp Multimodal Public Projects Revenue Bonds Series 2004D dated October 1, 2004 were issued. These costs were capitalized and amortized over the term of the bond using the effective interest method. During the fiscal year ending December 31, 2013, the District issued new bonds to retire the outstanding 2004D series bonds. Accordingly, these unamortized bond issue costs of the 2004D series bonds were removed from the District's records as part of the carrying value of the old debt (See Note F). Amortization of bond issue costs for year ended December 31, 2013 and 2012 was \$937 and \$1,924, respectively.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of net position that applies to a future periods and so will not be recognized as an outflow of resources until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt as a component of interest expense.

Revenue

Revenue is based on rates approved by the Kentucky Public Service Commission (PSC).

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

The District expenses advertising costs as they are incurred. Expenses primarily relate to advertising in local directories and requests for invitations to bid on contractual agreements.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District maintains collateral agreements with its financial institutions. Deposits are 100% secured with collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). The District does not have a deposit policy for custodial risk.

Cash deposits and investments are carried at cost, which approximates market value. Deposits of the District's reporting entity are insured and collateralized with securities held by the District, its agent, or by the pledging financial institution's trust department or agent in the name of the District. During the years ended December 31, 2013 and 2012, the District's only cash and cash equivalents were demand deposits.

For the years ended December 31, 2013 and 2012, the carrying amounts of the District's cash and cash equivalents, including restricted cash, were \$134,010 and \$90,693, respectively. The bank balances of the District's cash and cash equivalents were \$134,703 and \$100,086, respectively. As of December 31, 2013 and 2012, the District's bank balances did not exceed federally insured limits.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE C - UTILITY PLANT IN SERVICE

The major classifications and related costs of utility plant assets as of December 31 are as follows:

	<u>Balance as of Dec 31, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of Dec 31, 2013</u>
Water system	\$ 7,591,881	\$ 41,776	\$ (2,238)	\$ 7,631,419
Vehicles	62,355	-	-	62,355
Equipment & furniture	<u>107,037</u>	<u>845</u>	<u>(14,596)</u>	<u>93,286</u>
	7,761,273	42,621	(16,834)	7,787,060
Less accumulated depreciation	<u>(2,768,682)</u>	<u>(203,768)</u>	<u>15,407</u>	<u>(2,957,043)</u>
	4,992,591	(161,147)	(1,427)	4,830,017
Construction in progress	-	-	-	-
Land	<u>19,480</u>	<u>-</u>	<u>-</u>	<u>19,480</u>
	<u>\$ 5,012,071</u>	<u>\$ (161,147)</u>	<u>\$ (1,427)</u>	<u>\$ 4,849,497</u>
	<u>Balance as of Dec 31, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of Dec 31, 2012</u>
Water system	\$ 7,550,638	\$ 42,599	\$ (1,356)	\$ 7,591,881
Vehicles	62,355	-	-	62,355
Equipment & furniture	<u>116,467</u>	<u>9,003</u>	<u>(18,433)</u>	<u>107,037</u>
	7,729,460	51,602	(19,789)	7,761,273
Less accumulated depreciation	<u>(2,582,204)</u>	<u>(204,792)</u>	<u>18,314</u>	<u>(2,768,682)</u>
	5,147,256	(153,190)	(1,475)	4,992,591
Construction in progress	-	-	-	-
Land	<u>19,480</u>	<u>-</u>	<u>-</u>	<u>19,480</u>
	<u>\$ 5,166,736</u>	<u>\$ (153,190)</u>	<u>\$ (1,475)</u>	<u>\$ 5,012,071</u>

NOTE D - RESTRICTED ASSETS

The District is required to maintain separate funds to meet their obligations on their revenue bonds as described in Note F. These funds have been classified as restricted assets in the statements of net assets. In addition, funds contributed from developers and grants for future construction have been classified as restricted assets in the statements of net position.

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted as needed.

NOTE E - UNAMORTIZED COSTS AND DEFERRED OUTFLOWS OF RESOURCES

During the year ended December 31, 2004, the District issued Kentucky Rural Water Finance Corp Multimodal Public Projects Revenue Bonds Series 2004D dated October 1, 2004 for construction of a water main extension and advance refunding of its West McCracken Water District Revenue Bonds Series 1967 dated October 1, 1967 as described in Note F. For fiscal year ended December 31, 2012, the costs related to issuance of the 2004D series bonds and advance refunding were classified as non-current assets in these financial statements. During the fiscal year ended December 31, 2013, the District issued Kentucky Rural Water Finance Corp Multimodal Public Projects Revenue Bonds Series 2013 dated March 27, 2013 to refund the outstanding 2004D series bonds as of April 1, 2013. The reacquisition price exceeding the net carrying amount of the old debt (2004D series outstanding less unamortized discount costs) was deferred and classified as *deferred outflows of resources*.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE F – SHORT AND LONG-TERM LIABILITIES

On July 21, 2008, the District opened a \$50,000 unsecured revolving line of credit with Paducah Bank to supplement funding of various construction projects. The line of credit is renewable annually and was renewed on April 10, 2013, and was extended to \$60,000. Interest is charged at a variable rate based on prime rate currently 5.00%, with monthly interest payments and principal and accrued interest due April 10, 2014.

On March 27, 2013, the District issued \$525,000 in Series 2013 revenue bonds with interest rates of 2.30% to 4.80% with annual principal payments and semi-annual interest payments. The proceeds were used to current refund \$576,000 of outstanding Series 2004D revenue bonds which had interest rates ranging from 3.89% to 4.56%. The net proceeds of \$587,713 (including \$62,287 premium on the new bonds; available cash of \$15,412 from the prior issue sinking fund; and payment of \$14,976 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the April 1, 2013 current refunding of the 2004D outstanding bonds, accrued interest and call premium. As a result, the 2004D Series revenue bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position. The 2013 series bonds are required to be fully paid by February 1, 2024.

The reacquisition price exceeded the net carrying amount of the old debt by \$14,317. This amount, reported as a *deferred outflow of resources* in the statement of net position, is being amortized over the remaining life of the refunding debt as a component of interest expense. The District current refunded the 2004D series bonds to reduce its total debt service payments over 12 years by \$67,439 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$50,255.

The 2004D bond agreement, as amended by the 2013 bond agreement, requires the following monthly distribution from the revenue fund:

- First: One-sixth of the next semi-annual interest payment is to be transferred to the bond and interest redemption fund.
- Second: One-twelfth of the succeeding bond maturity is to be transferred to the bond and interest redemption fund.
- Third: Transfer to the operating and maintenance account funds sufficient to meet the current expenses not to exceed amount required to cover anticipated expenditures for a two-month period.
- Fourth: Within 60 days of fiscal year end, the balance of excess funds is to be transferred to a depreciation fund for extensions or to a sinking fund for purchase or redemption of outstanding bonds.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE F - SHORT AND LONG-TERM LIABILITIES (Continued)

The following is a summary of changes in short-term and long-term debt for the year ended December 31, 2013:

<u>Description</u>	<u>Balance as of December 31, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance as of December 31, 2013</u>	<u>Due With In One Year</u>
Short-Term Notes Payable:					
Paducah Bank Line of Credit	\$ 23,000	\$ -	\$ (23,000)	\$ -	\$ -
Long-Term Payable:					
Kentucky Rural Water Finance Corp Multimodal Public Projects revenue bonds – 2004D	\$ 618,000	\$ -	\$ (618,000)	\$ -	\$ -
Kentucky Rural Water Finance Corp Multimodal Public Projects revenue bonds – 2013	-	525,000	-	\$ 525,000	40,000
Premium	-	62,287	(3,218)	59,069	-
Total Long-Term Payables	<u>\$ 618,000</u>	<u>\$ 587,287</u>	<u>\$ 621,218</u>	<u>\$ 584,069</u>	<u>\$ 40,000</u>

The annual debt service requirements to maturity for long-term debt as of December 31, 2013, are as follows:

<u>Years Ending December 31,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2014	\$ 21,382	\$ 45,000	\$ 66,382
2015	20,205	40,000	60,205
2016	18,885	40,000	58,885
2017	17,258	45,000	62,258
2018	15,323	45,000	60,323
2019 - 2023	45,622	250,000	295,622
2024 - 2028	<u>1,890</u>	<u>60,000</u>	<u>61,890</u>
	<u>\$ 140,565</u>	<u>\$ 525,000</u>	<u>\$ 665,565</u>

NOTE G - CUSTOMER ADVANCES FOR CONSTRUCTION

The District records contributions in aid of construction from developers net of amounts due to developers for potential tap-on additions. As additional tap-ons are requested, developers are reimbursed an amount determined according to PSC guidelines per tap-on. The reimbursement period is for ten years. At the end of the ten-year period, any advances remaining are recorded as non-operating revenues.

For the periods ended December 31, 2013 and 2012, the District did not have any customer advances for construction.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE H - PENSION PLAN

The District employees participate in the County Employees Retirement System (CERS). CERS is a cost-sharing, multi-employer public employee retirement system, which provides retirement, disability, and death benefits to members of the plan. Benefits and contribution rates are established by state statute. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. Requests for a copy of the report should be made in writing and submitted to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Louisville, Kentucky 40601-6124 or by calling (502)-564-4646.

The Board of Trustees of the Kentucky Retirement System establishes contribution rates for the District. The employees beginning participation on or before September 1, 2008 contribute 5% of gross earnings, while employees beginning participation after September 1, 2008 contribute 6% of gross earnings. The employer contributed 18.89% for July thru December of 2013, 19.55% for July of 2012 thru June of 2013, and 18.96% for January of 2012 thru June of 2012 of the employee's gross earnings. Contributions to the Plan for the years ended December 31, 2013, 2012 and 2011 were \$30,063, \$36,019 and \$39,127, of which, \$23,585, \$28,235 and \$30,380 was contributed by the employer and \$6,478, \$7,784 and \$8,747 was contributed by the employees, respectively, equal to the required contributions for each year.

NOTE I - SUPPLEMENTAL DISCLOSURES REGARDING STATEMENTS OF CASH FLOWS

Accounting Policy

For purposes of the statements of cash flows, cash and cash equivalents include all highly liquid debt instruments with maturities of three months or less.

Cash and cash equivalents include all restricted and unrestricted demand and savings accounts of the District and are reported in the statement of net position as follows:

	2013	2012
Cash and cash equivalents	\$ 25,099	\$ 18,484
Restricted cash	108,911	72,209
Total cash and cash equivalents	\$ 134,010	\$ 90,693

Supplemental Disclosure of Cash Flow Information

Cash paid for interest expense in 2013 and 2012 totaled \$20,897 and \$28,642, respectively.

Non-cash Capital and Financing

During the years ended December 31, 2013 and December 31, 2012, the District did not incur any noncash capital and financing transactions.

NOTE K - RISK MANAGEMENT

West McCracken County Water District is exposed to various risks of loss including, but not limited to property, casualty, general liability, auto liability, public officials' liability, workers compensation, and employee health and life.

To limit exposure to these risks, West McCracken County Water District contracts for insurance coverage. During the years ended December 31, 2013 and 2012, there were no significant reductions in insurance coverage. There have been no significant settlement amounts, which exceed insurance coverage in the past two years. The District is not aware of any claims owed as of December 31, 2013.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE J - CONCENTRATION

The District purchases all water from the City of Paducah Water Works. Loss of this supplier would significantly affect the District's ability to supply water to its customers. The organization is currently developing contingency plans with other suppliers should the need arise.

The District has one industrial customer which provided \$169,701 (23%) and \$132,422 (17%) of revenue for the years ended December 31, 2013 and 2012, respectively. Loss of this customer would significantly affect the District's revenues.

NOTE K – RECENTLY ISSUED ACCOUNTING STANDARDS

During the year ended December 31, 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements that will have a future impact on the Agency. These statements relate to the recognition of Other Post-Employments Benefits earned by employees whose governmental agency participates in multi-employer, cost-sharing pension plan. The new statements are Statement No. 67, Financial Reporting for Pension Plans, effective for fiscal years beginning after June 15, 2013, and Statement No. 68, Accounting and Financial Reporting for Pensions, effective for years beginning after June 15, 2014. These GASB statements require the cost-sharing governments to report a net pension liability, pension expense and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. These amounts are not being calculated for the year ended December 31, 2013, but will have a significant impact in the year of implementation.

NOTE L - SUBSEQUENT EVENT

Management has evaluated subsequent events through February 20, 2014, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

**WEST MCCRACKEN COUNTY WATER DISTRICT
SCHEDULE OF INSURANCE IN FORCE
December 31, 2013**

Multiple Peril Policy	
Property	\$2,710,023 less \$1,000 deductible
General Liability	\$1,000,000 aggregate of \$3,000,000
Cyber Liability	\$1,000,000
Privacy Crisis Management Expense	\$50,000
Business Income	\$250,000
Employee Dishonesty	\$250,000 less \$1,000 deductible
Employee Benefits Liability	\$1,000,000 aggregate of \$3,000,000
Professional Liability	\$1,000,000 aggregate of \$3,000,000
Public Official Liability	\$1,000,000 aggregate of \$3,000,000
Workmen's Compensation	Statutory
Automobile	
Liability	\$1,000,000
PIP	\$10,000 per person
Uninsured and underinsured motorist	\$1,000,000
Comprehensive	ACV, less \$100 deductible
Collision	ACV, less \$500 deductible
Equipment/Item	
Unscheduled Off Premises In Transit Property	\$25,000 less deductible
Small Tools	\$34,000 less \$1,000 deductible
Non-Owned Contractors Equipment/ Tools	\$100,000/ \$10,000

See auditor's report on page 1.



**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
West McCracken County Water District
West Paducah, Kentucky

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 the business-type activities of West McCracken 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 West McCracken County Water District's basic financial statements, and have issued our report thereon dated February 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered West McCracken 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 West McCracken County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the West McCracken County Water District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying *schedule of findings and responses*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies (reference #'s 2013-1 and 2013-2) described in the accompanying *schedule of findings and responses* to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West McCracken 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 audits, 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*.

West McCracken County Water District's Response to Findings

West McCracken County Water District's responses to the findings identified in our audit are described in the accompanying *schedule of findings and responses*. West McCracken County Water District's responses were 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 result 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.



Certified Public Accountants and Consultants
Paducah, Kentucky
February 20, 2014

**WEST MCCrackEN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013**

Reference # 2013-1

The District does not have adequate segregation of duties over cash receipts and disbursements. The basic premise in a good system of internal control is that an employee should not have access to assets and responsibility for the related accounting records.

Cause

This is due to inadequate number of personnel to achieve true segregation of duties.

Effect

The District is at risk of misappropriation of assets.

Recommendation

Unless the District hires additional personnel, we recommend the District consider using a lockbox system for receipts. Under such a system, remitters are requested, via notations, to send their payments to a post office box which is accessible only to the District's bank. Each day, the bank collects receipts from the box, credits the receipts to the District's account, and sends copies of all check stubs, remittance advices, and other communications to the District for processing. Since employees have no direct contact with remittances from the District's customers, the risk of mishandling or misappropriation is virtually eliminated.

With regard to disbursements, segregation could be improved by limiting check signing to the District's board members only. This would achieve oversight of disbursements by someone outside the recording function.

Response

The District agrees with the auditors' comments. We do not have adequate segregation of duties. The District strives to provide safe, clean drinking water to our customers at a competitive price and in order to have adequate segregation of duties it would require additional personal, which would increase our operation expenses. The District's Board of Commissioners scrutinizes a profit and loss statement, payroll check register, accounts payable register that includes GL Detail, bank reconciliation reports, and invoices at monthly board meetings. The District is going to implement unannounced rotation of duties as part of its internal control. It will not only be an effective internal check but it will provide valuable training for the employees.

Reference # 2013-2

The District does not have employees with the necessary accounting expertise or knowledge to properly prepare financial statements and related disclosures in accordance with the generally accepted accounting principles. Accordingly, the District relies on its auditors to prepare year-end financial statements in accordance with generally accepted accounting principles.

Cause

The District's personnel have not received training in areas of preparation of financial statements and the related required disclosures in accordance with generally accepted accounting principles.

Effect

In absence of the necessary knowledge and expertise, the District cannot properly prepare financial statements and the related required disclosures in accordance with generally accepted accounting principles. Accordingly, the District requested its independent auditors to assist in the preparation of such statements and disclosures.

Recommendation

We recommend the District consider additional training of personnel in the area of financial statement preparation in accordance with generally accepted accounting principles.

Response

We do not have employees with the necessary accounting expertise to prepare financial statements and the related required disclosures. To employ someone with that expertise would not be feasible for the District.

**WEST MCCRACKEN COUNTY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2012**

Reference # 2012-1

The District does not have adequate segregation of duties over cash receipts and disbursements. The basic premise in a good system of internal control is that an employee should not have access to assets and responsibility for the related accounting records.

Status

This finding is still present.

Reference # 2012-2

The District does not have employees with the necessary accounting expertise or knowledge to properly prepare financial statements and related disclosures in accordance with the generally accepted accounting principles. Accordingly, the District relies on its auditors to prepare year-end financial statements in accordance with generally accepted accounting principles.

Status

This finding is still present.