

West Shelby Water District
Financial Statements
December 31, 2013 and 2012

West Shelby Water District

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December 31, 2013 and 2012

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Independent Auditor's Report

To the Board of Directors
West Shelby Water District

Report on the Financial Statement

We have audited the accompanying financial statements of the business-type activities of West Shelby Water District ("District"), as of and for the year 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, based on our audit of the business-type activities, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (Continued)

Emphasis of Matter

As described in Note N to the financial statements, in 2013 the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters Required: Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Revenues, Expenses, and Changes in Net Position – Actual to Budget is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements, as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.

Frankfort, Kentucky
March 20, 2014

West Shelby Water District
Management's Discussion and Analysis (*Unaudited*)
December 31, 2013 and 2012

As management of the West Shelby Water District (District), we offer the readers of the District's financial statements this narrative overview and analysis of the financial performance of the District for the year ended December 31, 2013. We encourage readers to read it in conjunction with the District's financial statements and the accompanying notes.

Financial Highlights

- Cash and cash equivalents increased \$51,401 (30%)
- Restricted cash increased \$396,987 (117%).
- Property, plant and equipment (net) decreased \$259,867 (3%)
- Accounts payable decreased \$2,138 (13%).
- Accrued interest decreased \$22,214 (100%)
- Bonds/Notes payable decreased \$90,478 (8%).
- Net position increased \$623,491 (6%)
- Operating revenues decreased \$42,801 (3%)
- Total expenses increased \$36,052 (3%)
- Operating income decreased \$78,853 (62%)
- Non-operating (expenses) (net) increased \$14,805 (34%)
- Investment income decreased \$21,182 (75%)

Overview of the Financial Statements

This financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the accompanying notes to the financial statements. The West Shelby Water District is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the District. These statements are presented in a manner similar to those of a private business.

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

The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2013 and 2012

Overview of the Financial Statements (Continued)

The statement of cash flows provides relevant information about the cash receipts and cash payments of the District during the fiscal year. The statement should help users assess the District's ability to generate future net cash flows, meet future obligations as they become due, and assess the District's need for future external financing, the reasons for differences in operating and related cash receipts and cash payments, and the effects on financial position of cash and non-cash investing, capital, non-capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 13-21.

Financial Analysis of the District

Condensed Financial Information
Statement of Net Position
as of December 31

	2013	Percentage Increase (Decrease)	2012 (Restated)
Current assets	\$ 2,313,701	13.0%	\$ 2,046,854
Non-current assets	10,003,181	2.5%	9,756,249
Total assets	<u>12,316,882</u>	4.4%	<u>11,803,103</u>
Current liabilities	146,265	-24.8%	194,499
Non-current liabilities	1,098,522	-5.3%	1,160,000
Total liabilities	<u>1,244,787</u>	-8.1%	<u>1,354,499</u>
Restricted	736,206	117.0%	339,219
Unrestricted	10,335,889	2.2%	10,109,385
Total net position	<u>\$ 11,072,095</u>	6.0%	<u>\$ 10,448,604</u>

Current assets consist primarily of operating cash, cash equivalents, short term certificate of deposits, investment bonds and accounts receivables.

**West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2013 and 2012**

Financial Analysis of the District (Continued)

Non-current assets consist primarily of property, plant and equipment and cash balances restricted for capital construction and debt service.

Current liabilities consist primarily of accounts payable, accrued payroll liabilities and the current-portion of notes payables.

Non-current liabilities represent the non-current portion of bond and notes payables.

The prior year's beginning net position was restated to reflect the early implementation GASB 65.

Condensed Financial Information
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended December 31

	<u>2013</u>	Percentage Increase (Decrease)	<u>2012 (Restated)</u>
Operating revenues:			
Sale of water	\$ 1,345,300	-3.4%	\$ 1,393,291
Other revenues	37,249	16.2%	32,059
Total operating revenues	<u>1,382,549</u>	-3.0%	<u>1,425,350</u>
Operating expenses:			
Operating	755,798	-0.3%	757,910
General and administrative	273,374	7.7%	253,846
Depreciation	305,738	6.5%	287,102
Total operating expenses	<u>1,334,910</u>	2.8%	<u>1,298,858</u>
Income from operations	<u>47,639</u>	-62.3%	<u>126,492</u>
Non-operating revenues (expenses)			
Investment income	7,112	-74.9%	28,294
Debt refinance expenses	(8,100)	100.0%	-
Loss on inventory valuation	(2,427)	100.0%	(6,135)
Interest expense	<u>(55,154)</u>	-16.3%	<u>(65,923)</u>
Non-operating (expenses)	<u>(58,569)</u>	33.8%	<u>(43,764)</u>
Excess revenue (under) over expenses	(10,930)	-113.2%	82,728
Changes in equity contribution			
Member tap on	15,200	-14.2%	17,713
Member construction contribution	<u>619,221</u>	554.0%	<u>94,676</u>
Total	<u>634,421</u>	464.5%	<u>112,389</u>
Change in net position	<u>\$ 623,491</u>	219.5%	<u>\$ 195,117</u>

West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2013 and 2012

Financial Analysis of the District (Continued)

Condensed Financial Information
Statement of Revenues, Expenses and Change in Net Position (Continued)
For the Fiscal Year Ended December 31

	<u>2013</u>		<u>2012 (Restated)</u>
Net position, beginning of year	\$ 10,448,604	1.9%	\$ 10,253,487
Net positon, end of year	<u>\$ 11,072,095</u>	6.0%	<u>\$ 10,448,604</u>

Sale of Water represents revenues from providing water to residential, commercial, industrial, governmental, and multi-family customers.

Other income represents revenues for reconnect fees, forfeited discounts (late fees), and interest earned.

Operating expenses primarily represent the purchasing of water, personnel costs for maintenance staff, utilities, and repairs and maintenance.

General and administrative expenses primarily represent personnel costs for administrative staff, employee benefits, insurance, supplies and payroll taxes.

Depreciation expenses are related to the allocation of the usefulness of property, plant and equipment over the life time.

Non-operating revenues (expenses) consist primarily of interest revenue, interest expense, and gain (loss) on sale of property, plant and equipment.

Condensed Financial Information
Statement of Cash Flows
For the Fiscal Year Ended December 31

	<u>2013</u>	<u>Percentage Increase (Decrease)</u>	<u>2012 (Restated)</u>
Net Cash provided by (used in):			
Operating activities	\$ 330,341	-26.9%	\$ 451,722
Capital and related financing activities	436,782	179.9%	(546,473)
Investing activities	<u>(74,350)</u>	-74.8%	<u>(295,278)</u>
Net change in cash and cash equivalents	692,773	277.6%	(390,029)
Cash and cash equivalents, beginning of year	<u>1,483,664</u>	-20.8%	<u>1,873,693</u>
Cash and cash equivalents, end of year	<u>\$ 2,176,437</u>	46.7%	<u>\$ 1,483,664</u>

**West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2013 and 2012**

Financial Analysis of the District (Continued)

The net increase in cash and cash equivalents totaled \$451,401 at December 31, 2013, primarily due to member construction contributions.

Capital Assets Administration

The following table summarizes the changes in net capital assets between fiscal years 2013 and 2012.

	<u>2013</u>	Percentage Increase (Decrease)	<u>2012 (Restated)</u>
Transmission and distribution plant	\$ 11,987,236	0.1%	\$ 11,969,734
General plant	724,266	3.7%	698,098
Accumulated depreciation	<u>(3,928,444)</u>	8.4%	<u>(3,624,907)</u>
	<u><u>\$ 8,783,058</u></u>	-2.9%	<u><u>\$ 9,042,925</u></u>

Debt Administration

The following table summarizes the outstanding obligations under bonds payable and notes payable as December 31, 2013 and 2012.

	<u>2013</u>	Percentage Increase (Decrease)	<u>2012</u>
Bonds payable	\$ 1,096,000	33.8%	\$ 819,000
Notes payable	<u>-</u>	-100.0%	<u>400,000</u>
	<u><u>\$ 1,096,000</u></u>	-10.1%	<u><u>\$ 1,219,000</u></u>

Contacting The District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all of those with an interest. If you have any questions concerning the information provided in this report or need additional financial information, contact the West Shelby Water District, 7101 Shelbyville Road, Simpsonville, Kentucky 40067.

**West Shelby Water District
Statements of Net Position
December 31, 2013 and 2012**

	<u>2013</u>	<u>2012 (Restated)</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,935,065	\$ 1,483,664
Certificate of deposits - current portion	187,880	376,235
Accounts receivable	93,030	95,907
Inventory - materials and supplies	82,059	70,871
Prepaid expenses and other	<u>15,667</u>	<u>20,177</u>
Total Current Assets	2,313,701	2,046,854
Non-Current Assets		
Restricted cash and cash equivalents	736,206	339,219
Certificate of deposits - long term	105,495	271,189
Long term investment bonds	137,050	102,916
Property, plant and equipment, net of accumulated depreciation	8,783,058	9,042,925
Construction in progress	<u>241,372</u>	<u>-</u>
Total Non-current Assets	<u>10,003,181</u>	<u>9,756,249</u>
Total Assets	<u>\$ 12,316,882</u>	<u>\$ 11,803,103</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 14,853	\$ 16,991
Accrued interest	-	22,214
Customer deposits	84,425	82,667
Accrued taxes and payroll liabilities	16,987	13,627
Bonds/notes payable, current portion	<u>30,000</u>	<u>59,000</u>
Total Current Liabilities	146,265	194,499
Non-Current Liabilities		
Bonds payable, long-term portion	1,066,000	788,000
Notes payable, long-term portion	-	372,000
Premium on bonds payable	<u>32,522</u>	<u>-</u>
Total Non-Current Liabilities	<u>1,098,522</u>	<u>1,160,000</u>
Total Liabilities	<u>1,244,787</u>	<u>1,354,499</u>
Net Position		
Restricted for capital construction and debt payments	736,206	339,219
Unrestricted net position	<u>10,335,889</u>	<u>10,109,385</u>
Total Net Position	<u>11,072,095</u>	<u>10,448,604</u>
Total Liabilities and Net Position	<u>\$ 12,316,882</u>	<u>\$ 11,803,103</u>

See accompanying notes.

West Shelby Water District
Statements of Revenues, Expenses and Changes in Net Position
December 31, 2013 and 2012

	<u>2013</u>	<u>2012 (Restated)</u>
Revenue from Sale of Water		
Residential customers	\$ 670,518	\$ 704,174
Industrial customers	351,205	349,697
Commercial customers	169,085	176,973
Public authorities	57,370	70,275
Private fire protection	51,609	51,789
Multi-family dwellings	45,513	40,383
Total Revenue from Sale of Water	<u>1,345,300</u>	<u>1,393,291</u>
Other Revenue		
Miscellaneous revenue	19,481	18,672
Forfeited discounts	17,768	13,387
Total Other Revenues	<u>37,249</u>	<u>32,059</u>
Total Revenues	1,382,549	1,425,350
Operating expenses		
Water purchased	537,446	548,476
Salaries	172,311	161,215
Maintenance materials and supplies	23,657	18,638
Power-pumping equipment	13,783	15,991
Operating supplies and expenses	8,601	13,590
Total Operating Expenses	<u>755,798</u>	<u>757,910</u>
Administrative and General		
Salaries	44,575	42,774
Employee retirement	39,531	37,650
Insurance	34,986	27,942
Employee insurance	23,356	22,460
Legal and accounting	22,691	20,414
Truck and equipment expenses	19,176	20,159
Commissioners fees	18,000	18,000
Computer/copier support	14,828	-
Payroll taxes	14,692	13,793
Office supplies	14,667	25,796
Utilities	13,644	12,817
Miscellaneous	4,961	2,515
Employee uniforms	2,576	3,797
Rent	2,269	2,266
Employee training	2,218	2,001
Uncollectible revenue	708	510
Interest on customer deposits	350	749
Travel	146	203
Total Administrative and General	<u>273,374</u>	<u>253,846</u>

See accompanying notes.

West Shelby Water District
Statements of Revenues, Expenses and Changes in Net Position (Continued)
December 31, 2013 and 2012

	<u>2013</u>	<u>2012 (Restated)</u>
Other Operating Deductions		
Depreciation	305,738	287,102
Total Other Operating Deductions	<u>305,738</u>	<u>287,102</u>
Total Expenses	<u>1,334,910</u>	<u>1,298,858</u>
 Total Operating Income	 47,639	 126,492
 Non-operating Revenues (Expenses)		
Investment income	7,112	28,294
Debt refinance expenses	(8,100)	-
Loss on inventory valuation	(2,427)	(6,135)
Interest on long-term debt	(55,154)	(65,923)
Total Non-operating Revenues (Expenses)	<u>(58,569)</u>	<u>(43,764)</u>
 Excess Revenue (Under) Over Expenses	 (10,930)	 82,728
 Changes in Equity Contribution		
Member tap on	15,200	17,713
Member construction contribution	619,221	94,676
Total Changes in Equity Contribution	<u>634,421</u>	<u>112,389</u>
 Change in Net Position	 <u>623,491</u>	 <u>195,117</u>
 Total Net Position, Beginning of Year (Restated)	 <u>10,448,604</u>	 <u>10,253,487</u>
 Total Net Position, End of Year	 <u>\$ 11,072,095</u>	 <u>\$ 10,448,604</u>

See accompanying notes.

West Shelby Water District
Statements of Cash Flows
December 31, 2013 and 2012

	<u>2013</u>	<u>2012 (Restated)</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,387,183	\$ 1,421,980
Cash payments to suppliers for goods and services	(757,583)	(686,568)
Cash payments for employee salaries and benefits	(299,259)	(283,690)
	<u>330,341</u>	<u>451,722</u>
Net Cash Provided by Operating Activities	330,341	451,722
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(45,868)	(566,164)
Loss on inventory	(2,427)	(6,135)
Gain on sale of assets	4,376	5,360
Principal payments on bonds and notes payable	(91,000)	(26,000)
Member construction contributions	619,221	94,676
Member tap fees	15,200	17,713
Bond refinance extra proceeds deposited in sinking fund	(4,314)	-
Interest payments on long-term debt	(58,406)	(65,923)
	<u>436,782</u>	<u>(546,473)</u>
Net Cash Provided by (Used in) Capital & Related Financing Activities	436,782	(546,473)
Cash Flows from Investing Activities		
Interest received	18,664	22,934
Decrease/(Increase) in short term certificate of deposits	188,355	(228,722)
Decrease in long term certificate of deposits	165,694	63,576
Purchase of long term investment bonds	(50,076)	(102,916)
Increase in restricted cash and cash equivalents	(396,987)	(50,150)
	<u>(74,350)</u>	<u>(295,278)</u>
Net Cash Used in Investing Activities	(74,350)	(295,278)
Net Increase/(Decrease) in Cash & Cash Equivalents	692,773	(390,029)
Cash and Cash Equivalents, Beginning of Year	<u>1,483,664</u>	<u>1,873,693</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,176,437</u>	<u>\$ 1,483,664</u>

See accompanying notes.

West Shelby Water District
Statements of Cash Flows (Continued)
December 30, 2013 and 2012

	<u>2013</u>	<u>2012 (Restated)</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 47,639	\$ 126,492
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	305,738	287,102
Accounts receivable	2,876	(3,778)
Inventories	(11,188)	13,599
Prepaid expenses and other	4,510	601
Accounts payable	(2,138)	5,485
Accrued interest	(22,214)	21,938
Accrued taxes and payroll liabilities	3,360	(125)
Customer deposits	1,758	408
	<u>\$ 330,341</u>	<u>\$ 451,722</u>
Net Cash Provided by Operating Activities		
Schedule of Non-cash Financing Activity		
Amortization of bond premium	<u>\$ 3,352</u>	<u>\$ -</u>

See accompanying notes.

**West Shelby Water District
Notes to Financial Statements
December 31, 2013 and 2012**

Note A - Nature of Organization and Operations

The District was established by order of the Shelby County Fiscal Court on March 10, 1964. The District was established to develop and operate a complete water supply and distribution system, which services parts of Shelby County.

Note B - Summary of Significant Accounting Policies

1. Basis of Presentation: The accompanying financial statements have been prepared as an enterprise fund. Enterprise funds are designed to accumulate the total cost of providing a particular service and to indicate the extent user charges are sufficient to cover these costs. Customer meters are read and billed monthly at which time the receivable is recorded and revenue is recognized. No provision has been made for doubtful accounts due to the amount determined to be uncollectible. The West Shelby Water District (District) uses the accrual basis of accounting for financial accounting and reporting purposes.
2. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
3. Statement of Cash Flows: For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash paid for interest was \$58,406 and \$65,923 for the years ended December 31, 2013 and 2012, respectively.
4. Inventory: Inventories are stated at the lower of cost or market based on first-in first-out method. During 2013, inventory was written down \$2,427 to adjust for the end of the year physical inventory count.
5. Property, Plant and Equipment: Property, plant and equipment are capitalized and recorded at cost. The District does not have a formal capitalization policy. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following is a summary of the estimated useful lives used in computing depreciation:

Buildings and improvements	5-50 years
Machinery, equipment and leasehold improvements	5-25 years
Furniture and fixtures	5-25 years

Depreciation expense for the years ended December 31, 2013 and 2012 was \$305,738 and \$287,102, respectively.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

Note B - Summary of Significant Accounting Policies (Continued)

6. Customer Deposits: Interest is accrued at a rate no greater than the District receives on cash investments and at no time greater than 6% annually.
7. New Customers: New service connection fees and construction contributions are recorded as an addition to equity. The cost of installation of the new service is recorded as an addition to plant assets and is subject to depreciation.
8. Accumulated vacation and sick leave: On January 13, 1995, the Commissioners adopted a formal policy relating to vacation and sick leave. Vacation is earned at rates varying from one to ten days per year depending on the length of service. Sick leave accrues at the rate of 1/2 day for every month employed or six days per year and shall accumulate to a maximum of 20 days. No accrual is necessary as a limited number of personnel are employed, and the amount of the accrual would be immaterial.
9. Retirement System: All full time employees on a regular basis are provided retirement through the County Employees Retirement System.
10. Subsequent Events: Subsequent events for the District have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

Note C - Concentration of Credit Risk

At December 31, 2013 and 2012 the carrying amount of the District's cash and cash investments were \$2,964,646 and \$2,470,307 respectively. All cash investments and bank balances were collateralized by federal depository insurance up to \$250,000 and other securities pledged by the financial institutions.

Note D - Investments

The District reports investments utilizing a fair value hierarchy that prioritizes the inputs (from the most objective to the most subjective) to the valuation techniques used to measure fair value into the three broad levels described as follows:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

Note D – Investments (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
December 31, 2013				
Certificate of Deposits	\$ 293,375	\$ -	\$ -	\$ 293,375
Bonds	<u>137,050</u>	<u>-</u>	<u>-</u>	<u>137,050</u>
	<u>\$ 430,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 430,425</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
December 31, 2012				
Certificate of Deposits	\$ 647,424	\$ -	\$ -	\$ 647,424
Bonds	<u>102,916</u>	<u>-</u>	<u>-</u>	<u>102,916</u>
	<u>\$ 750,340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 750,340</u>

Investments securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the values of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position and statement of activities. During 2013, the bonds had an unrealized loss of \$14,055. This loss was recorded as a decrease to investment income. Also, included in investment income was \$16,791 of interest income earned and \$4,376 gain on property, plant and equipment sold.

Note E - Restricted Cash and Cash Equivalents

	<u>2013</u>	<u>2012</u>
Depreciation fund	\$ 200,628	\$ 195,419
Construction fund	466,532	42,885
Sinking fund	<u>69,046</u>	<u>100,915</u>
	<u>\$ 736,206</u>	<u>\$ 339,219</u>

Restricted cash and cash equivalents include construction fund accounts and two debt service reserve fund (Depreciation and sinking).

The construction fund is being used for current and future construction projects. Customer contributions and unexpended bond proceeds are carried in this fund. The depreciation and sinking funds are debt reserve funds for the notes and bond payable.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

Note F - Property, Plant and Equipment

Property, plant and equipment consist of the following components:

	Balance 2012	Additions	Deletions	Balance 2013
Business-Type Activities				
Transmission and Distribution Plant				
Land and land right	\$ 127,248	\$ -	\$ -	\$ 127,248
Pumping equipment	446,441	-	-	446,441
Water treatment equipment	7,548	-	-	7,548
Standpipes	2,224,206	-	-	2,224,206
Transmission and distribution mains	7,972,541	-	-	7,972,541
Services and meters	819,131	17,499	-	836,630
Hydrants	352,732	-	-	352,732
Other plant equipment	19,887	-	-	19,887
Total	11,969,734	17,499	-	11,987,233
Less: Accumulated Depreciation	(3,284,174)	(271,812)	-	(3,555,986)
Total Transmission and Distribution Plant	8,685,560	(254,313)	-	8,431,247
General Plant				
Office furniture and equipment	92,297	9,231	-	101,528
Buildings	373,036	-	-	373,036
Transportation equipment	158,306	13,976	(1,672)	170,610
Tools, shop and garage equipment	67,843	5,162	(529)	72,476
Laboratory equipment	373	-	-	373
Communication equipment	6,243	-	-	6,243
Total	698,098	28,369	(2,201)	724,266
Less: Accumulated Depreciation	(340,733)	(33,923)	2,201	(372,455)
Total General Plant	357,365	(5,554)	-	351,811
Capital Assets, net	\$ 9,042,925	\$ (259,867)	\$ -	\$ 8,783,058

Note G – Retirement Plan

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The District's contribution rate for nonhazardous employees was 18.96 percent from January 01, 2012 – June 30, 2012; 19.55 percent from July 1, 2012 – June 30, 2013; and 18.89 percent from July 1, 2013 – December 31, 2013. The District's contribution for the years ended June 30, 2013 and 2012 were \$39,531 and \$37,650, respectively.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

Note G – Retirement Plan (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

Note H - Bonds Payable – Rural Economic & Community Development

The bond payable is the amount due Rural Economic & Community Development for long term financing as follows at December 31, 2013:

Bonds dated October 18, 1978 for \$300,000 with interest at 5%	\$ 58,000
Bonds dated January 11, 2001 for \$835,000 with interest at 5%.	<u>698,000</u>
Total Bonds Outstanding	<u><u>\$ 756,000</u></u>

The balance at December 31, 2012 was \$819,000. The payments for 2014 that were due on January 1, 2014 were paid prior to December 31. During 2013, \$63,000 of principal payments were made, which leaves an outstanding balance of \$756,000 at December 31, 2013. Future maturities of bonds are as follows:

	Principal 1978 Issue	Interest 1978 Issue	Principal 2001 Issue	Interest 2001 Issue	Total
2014	\$ -	\$ 1,450	\$ -	\$ 17,800	\$ 19,250
2015	18,000	2,000	15,000	34,900	69,900
2016	20,000	750	15,000	34,150	69,900
2017	20,000	250	16,000	33,400	69,650
2018	-	-	17,000	32,600	49,600
2019-2023	-	-	98,000	149,350	247,350
2024-2028	-	-	126,000	122,250	248,250
2029-2033	-	-	159,000	87,600	246,600
2034-2038	-	-	205,000	43,500	248,500
2039	-	-	47,000	2,350	49,350
	<u>\$ 58,000</u>	<u>\$ 4,450</u>	<u>\$ 698,000</u>	<u>\$ 557,900</u>	<u>\$ 1,318,350</u>

All properties and assets, both real and personnel, and revenues are pledged to secure these loans.

Note I – Notes Payable

A loan was obtained through Kentucky Rural Water Financing Corporation on June 27, 2001 in the amount of \$626,000. The loan was refinanced in 2013 (See Note J). The balances at December 31, 2013 and 2012 were \$0 and \$400,000 respectively.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

Note J – Bonds Payable – Kentucky Rural Water Financing Corporation

On July 15, 2013, the Kentucky Rural Water Financing Corporation loan noted in Note I was refinanced. The Kentucky Rural Water Financing Corporation Flexible Term Series 2013B bonds will have variable interest rates ranging from 2.00% – 4.50%. The bonds mature on February 1, 2013. The outstanding principal amount of the bonds at December 31, 2013 was \$340,000. The bonds were sold at a premium in the amount of \$35,744. The premium is being amortized over the term of the bonds. The unamortized bond premium is recorded as a noncurrent liability on the Statement of Net Position. The premium amortization, which is a decrease in interest expense, was \$3,352 for 2013. The unamortized bond premium as of December 31, 2013 was \$32,522.

Future maturities of bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 30,000	\$ 12,250	\$ 42,250
2015	30,000	11,500	41,500
2016	30,000	10,600	40,600
2017	35,000	9,450	44,450
2018	35,000	8,050	43,050
2019-2023	180,000	18,475	198,475
	<u>\$ 340,000</u>	<u>\$ 70,325</u>	<u>\$ 410,325</u>

Note K – Long-term debt

Long-term debt activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Reductions</u>	<u>Refinanced</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Enterprise Activities:</u>					
General Obligation Bonds	\$ 819,000	\$ 63,000	\$ -	\$ 756,000	\$ -
Kentucky Rural Water Bonds	400,000	28,000	(372,000)	-	-
Kentucky Rural Water Note	-	-	340,000	340,000	30,000
Enterprise Activities					
Long-term Liabilities	<u>\$ 1,219,000</u>	<u>\$ 91,000</u>	<u>\$ (32,000)</u>	<u>\$ 1,096,000</u>	<u>\$ 30,000</u>

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

Note L – Revenue from Sale of Water

The following is a statistical analysis of water purchased, sold, and unbilled.

	Water Purchased		Water Sold		Water Unbilled	
	Gallons	Cost/1000	Gallons Sold/1000			
2013	265,456,100	\$ 2.025	242,633,310	\$ 5.545	22,822,790	8.60%
2012	283,049,100	\$ 1.937	257,873,100	\$ 5.403	25,176,000	8.89%
2011	279,901,600	\$ 1.837	253,163,100	\$ 5.250	26,738,500	9.55%
2010	282,987,000	\$ 1.763	260,177,300	\$ 5.047	22,809,700	8.06%
2009	265,008,400	\$ 1.744	243,268,300	\$ 4.754	21,740,100	8.20%

Note M – Implementation of GASB 63

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance relative to deferred outflows of resources, a consumption of net assets by the entity that is applicable to a future reporting period, and deferred inflows of resources, an acquisition of net assets by the entity that is applicable to a future reporting period. GASB Statement No. 63 incorporates deferred outflows and inflows of resources into the definitions of the required components of the residual measure, renaming such measure as net position, rather than net assets. The provisions of GASB Statement No. 63 are effective for fiscal periods beginning after December 15, 2011 (the fiscal year ended June 30, 2013 for the District). The District adopted GASB 63 for the year ended June 30, 2013, the adoption of this standard did not have an impact on the District's financial position, results of operations, and/or cash flows.

Note N – Adoption of GASB 65

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2013 and 2012**

Note N – Adoption of GASB 65 (Continued)

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The net result was a decrease in the fiscal year 2012's beginning net position of \$9,435 due to the elimination of debt issuance costs.

Note O – Restatement of Net Position and Fund Balance

The net position has been restated to the following:

Net position January 1, 2011 - calendar year 2012 audit report	\$ 10,215,918
To implement GASB 65 - Eliminate Debt Costs	(9,435)
To remove restricted accounts payable	47,004
Restated net position - December 31, 2011	<u>\$ 10,253,487</u>

Supplementary Information

West Shelby Water District
Schedule of Revenues, Expenses and Changes in Net Position - Actual to Budget
December 31, 2013

	Actual	Budget	Variance Favorable (Unfavorable)
Revenue from Sale of Water			
Residential customers	\$ 670,518	\$ 722,300	\$ (51,782)
Industrial customers	351,205	334,000	17,205
Commercial customers	169,085	160,000	9,085
Public authorities	57,370	55,000	2,370
Private fire protection	51,609	48,000	3,609
Multi-family dwellings	45,513	30,000	15,513
Total Revenue from Sale of Water	1,345,300	1,349,300	(4,000)
Other Revenue			
Miscellaneous revenue	19,481	17,000	2,481
Forfeited discounts	17,768	15,000	2,768
Total Other Revenues	37,249	32,000	5,249
Total Revenues	1,382,549	1,381,300	1,249
Operating and Maintenance Expenses			
Water purchased	537,446	520,000	(17,446)
Salaries	216,886	210,000	(6,886)
Maintenance materials and supplies	23,657	17,100	(6,557)
Power-pumping equipment	13,783	19,000	5,217
Operating supplies and expenses	8,601	5,000	(3,601)
Employee retirement	39,531	37,800	(1,731)
Insurance	34,986	22,000	(12,986)
Employee insurance	23,356	30,000	6,644
Legal and accounting	22,691	24,000	1,309
Truck and equipment expenses	19,176	19,000	(176)
Commissioners fees	18,000	18,000	-
Computer/copier support	14,828	6,000	(8,828)
Office supplies	14,667	22,000	7,333
Utilities	13,644	13,000	(644)
Miscellaneous	4,961	10,500	5,539
Employee uniforms	2,576	4,600	2,024
Rent	2,269	2,300	31
Employee training	2,218	2,500	282
Uncollectible revenue	708	-	(708)
Interest on customer deposits	350	-	(350)
Travel	146	300	154
Total Operating and Maintenance Expenses	1,014,480	983,100	(31,380)

West Shelby Water District
Schedule of Revenues, Expenses and Changes in Net Position - Actual to Budget (Continued)
December 31, 2013

	Actual	Budget	Variance Favorable (Unfavorable)
Other Operating Deductions			
Depreciation	305,738	281,350	(24,388)
Payroll taxes	14,692	30,000	15,308
Total Other Operating Deductions	<u>320,430</u>	<u>311,350</u>	<u>(9,080)</u>
Total Expenses	<u>1,334,910</u>	<u>1,294,450</u>	<u>(40,460)</u>
Total Operating Income	47,639	86,850	41,709
Non-operating Revenues (Expenses)			
Investment income	2,736	15,000	(12,264)
Gain on sale	4,376	3,000	1,376
Debt refinance expenses	(8,100)	-	(8,100)
Loss on inventory valuation	(2,427)	-	(2,427)
Interest on long-term debt	(55,154)	(62,000)	6,846
Total Non-operating Revenues (Expenses)	<u>(58,569)</u>	<u>(44,000)</u>	<u>(14,569)</u>
Excess Revenue (Under) Over Expenses	<u>\$ (10,930)</u>	<u>\$ 42,850</u>	<u>\$ 27,140</u>

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*

West Shelby Water District
Simpsonville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Shelby Water District (District), which comprise the statement of net position as of December 31, 2013, and the related statement of revenues, expenses and change in net position, and cash flows for the year then ended and the related notes to the financial statements, and issued our report thereon dated March 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

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

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

Compliance and Other Matters

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

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* (Continued)

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.

Frankfort, Kentucky
March 20, 2014