

**WESTERN FLEMING COUNTY
WATER DISTRICT**

**AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012**

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DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Western Fleming County Water District, Kentucky
Ewing, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Western Fleming County Water District, Kentucky 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 opinions 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 from material misstatement.

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

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

Opinions

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014, on our consideration of the Western Fleming County Water District, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Western Fleming County Water District, Kentucky's internal control over financial reporting and compliance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the 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.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

March 28, 2014

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

ASSETS	2013	2012
Current Assets:		
Cash and Cash Equivalents-Unrestricted	\$ 659,200	\$ 720,406
Unbilled Revenue	43,104	37,168
Accounts Receivable (net of allowance for doubtful accounts of \$,3081 and \$6,571 at December 31, 2013 and 2012.)	77,289	68,520
Prepaid Insurance	10,404	10,404
Total Current Assets	789,997	836,498
Noncurrent assets:		
Cash and Cash Equivalents-Restricted	271,827	263,547
Bond Issue Costs	4,670	5,603
Nondepreciable Capital Assets:		
Land	165,710	165,710
Construction in Progress	-	-
Depreciable Capital Assets:		
Property, Plant and Equipment	10,776,923	10,702,166
Less: Accumulated depreciation	(4,164,213)	(3,897,506)
Total Noncurrent Assets	7,054,916	7,239,519
TOTAL ASSETS	\$ 7,844,913	\$ 8,076,018
LIABILITIES		
Current liabilities:		
Accounts Payable	\$ 8,924	\$ 81,228
Accrued Retirement	3,429	3,505
Accrued Taxes	2,148	(631)
Accrued Interest Payable	-	-
Current Portion of Long-term Debt	149,048	143,753
Total Current Liabilities	163,549	227,855
Noncurrent Liabilities:		
Notes Payable, Net of Current Portion	3,733,551	3,817,221
TOTAL LIABILITIES	3,897,100	4,045,076
NET POSITION		
Net Investment in Capital Assets	2,895,820	3,009,395
Restricted for:		
Debt Service	26,944	27,313
Capital Projects and Replacement	271,827	263,547
Unrestricted	753,222	730,687
TOTAL NET POSITION	\$ 3,947,813	\$ 4,030,942

See accompanying notes to the financial statements.

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
OPERATING REVENUES:		
Water Operating Revenues	\$ 922,597	\$ 930,857
TOTAL OPERATING REVENUES	922,597	930,857
OPERATING EXPENSES:		
Chemicals	103,034	107,524
Contract Service - Accounting	6,300	5,200
Contract Service - Legal	2,100	2,100
Contract Service - Other	31,139	22,610
Meter Reading	10,392	10,287
Insurance	20,480	17,033
Health Insurance	39,335	40,984
Materials and Supplies	15,997	31,502
Office Supplies	17,910	12,003
Telephone & Utilities	4,529	5,463
Miscellaneous	3,261	3,538
Payroll Taxes	12,484	12,467
Purchased Power	103,473	103,662
Purchased Water	62,124	65,007
Retirement	32,970	32,891
Service Fees	6,391	5,651
Penalties	2,000	3,000
Depreciation	266,707	252,037
Amortization	933	933
Salaries - Commissioners	12,334	12,400
Salaries - Employees	171,542	171,308
TOTAL OPERATING EXPENSES	925,436	917,600
OPERATING INCOME (LOSS)	(2,838)	13,257
NONOPERATING REVENUES:		
Customer Tap Fees	11,250	7,225
Gain(Loss) Sale of Assets	4,428	-
Interest Income	2,728	5,316
Interest Expense	(98,696)	(107,132)
TOTAL NONOPERATING REVENUES	(80,290)	(94,591)
Net Income Before Capital Contribution	(83,128)	(81,335)
Capital Contribution	-	-
CHANGE IN NET POSITION	(83,128)	(81,335)
NET POSITION - Beginning of year	4,030,942	4,112,276
NET POSITION - End of year	\$ 3,947,813	\$ 4,030,942

See accompanying notes to the financial statements.

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	922,597	930,857
Cash Payments to Suppliers for Goods and Services	(459,821)	(359,120)
Cash Payments for Salaries and Benefits	(256,330)	(257,650)
Other Receipts (Payments)	-	-
Net Cash Provided (Used) by Operating Activities	206,446	314,087
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	2,728	5,316
Net Cash Provided (Used) by Investing Activities	2,728	5,316
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	67,433	347,197
Principal Paid on Capital Debt	(175,610)	(134,060)
Purchases of Capital Assets	(74,757)	(481,499)
State Grants Received	-	-
Contributed Capital - Tap Fees	11,250	7,225
Interest Paid on Capital Debt	(98,696)	(107,132)
Net Cash Provided (Used) by Financing Activities	(270,380)	(368,269)
NET INCREASE (DECREASE) IN CASH	(61,206)	(48,866)
Cash and Cash Equivalents - Beginning of Year	720,406	769,272
Cash and Cash Equivalents - End of Year	\$ 659,200	\$ 720,406
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	(2,838)	13,257
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation Expense	266,707	252,037
Amortization Expense	933	933
Change in Assets and Liabilities:		
Accounts Receivable	(14,705)	(3,957)
Prepaid Expense	-	-
Accounts Payable and Other Payables	(46,354)	54,691
Accrued Wages and Vacation	2,703	(2,874)
Net Cash Provided (Used) by Operating Activities	\$ 206,446	\$ 314,087

Supplemental Disclosures:

Interest paid was \$ 98,696 and \$ 107,132 in 2013 and 2012 respectively.

See accompanying notes to the financial statements.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

NOTE 1: ORGANIZATION AND ACCOUNTING POLICIES

The Western Fleming Water District was created and organized as a public body corporate in Fleming County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Fleming County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The Reporting Entity

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

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

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

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds

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

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

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

Note 1: ORGANIZATION AND ACCOUNTING POLICIES

Basis of Accounting

The District maintains its accounting records on the accrual basis during the year. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is maintained at lower of cost or market.

Utility Plant

Utility Plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

Depreciation

Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates on a straight-line basis determined by reference to Utility Standards Rates (NARUC). The provisions for depreciation in 2013 reflect those standard rates by asset class.

Unbilled Revenue

The District records revenue as billed to its customers on monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statement include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

Net Position

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does have a deposit policy for custodial credit risk. As of December 31, 2013, \$0 of the bank balance was exposed to custodial credit risk. The current market value of pledged securities by Community Trust Bank at December 31, 2013 was \$1,183,183.

NOTE 3: LONG-TERM DEBT

Depreciation fund and bond reserve funds that are required by the 1969, 1988, 03 and 04 bond indentures are held as time deposits and certificates of deposit by Community Trust Bank-Ewing Branch at Ewing, Kentucky. The Depreciation Funds are sufficiently funded. The current depreciation funds currently total \$169,986 the required level is \$122,400. The amount they are over funded by is \$47,586. The depreciation fund required by the 1988 bond indenture requires that a deposit of \$170 be deposited monthly. As of December 31, 2013, the 1988 depreciation reserve fund had a balance of \$74,607. The 2004 bond indenture requires a bond reserve fund be set-up with the Regions bank. This account is set-up and had a balance of \$26,944 as of December 31, 2013. The new KIA loan for \$2,066,437 requires a R&M Reserve of \$6,500 per year until the account reaches \$65,000. The account should have \$19,500 in it as of December 31, 2013. This account has \$0.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2013 and 2012

Note: LONG-TERM DEBT (Continued)

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

	Beginning Balance	Additions	Reductions	Ending Balance
1980 Bond	\$ 219,000	\$ -	\$ 22,000	\$ 197,000
1988 Bond	219,000	-	9,000	210,000
1997 Bond	554,000	-	12,500	541,500
2002 Bond	451,500	-	7,500	444,000
2004 Bond	164,000	-	21,000	143,000
2010 KIA Loan, \$2,066,437 Loan #F08-01 Interest 1% payable semi-annually	2,353,474	67,433	73,808	2,347,099
	3,960,974	67,433	145,808	3,882,599
Less: Current Maturities	145,808			149,048
Totals	<u>\$ 3,815,166</u>			<u>\$ 3,733,551</u>

The following is a schedule of long-term debt maturities:

	Principal
2014	149,048
2015	153,796
2016	159,051
2017	161,016
2018	167,083
2019-2023	706,739
2024-2028	682,681
2029-2033	661,171
2034-2038	700,257
2039-2043	341,756
	<u>\$ 3,882,599</u>

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

NOTE 4: FIXED ASSETS

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

Business-Type Activities	Balance Jan 1, 2013	Additions	Deductions	Balance Dec 31, 2013
Cost:				
Land	\$ 165,710			\$ 165,710
Plant in Service	10,558,690	45,809		10,604,499
Other Depreciable Assets	143,476	28,948		172,424
Construction in Progress	-			-
Totals at historical cost	10,867,875	74,757	-	10,942,633
Less accumulated depreciation:				
Depreciation	3,897,506	266,707		4,164,213
Total accumulated depreciation	3,897,506	266,707	-	4,164,213
Business-Type Activities Capital Assets - Net	\$ 6,970,369	\$ (191,950)	\$ -	\$ 6,778,420

Capital asset activity for the fiscal year ended December 31, 2012 was as follows:

Business-Type Activities	Balance Jan 1, 2012	Additions	Deductions	Balance Dec 31, 2012
Cost:				
Land	\$ 165,710	\$ -	\$ -	\$ 165,710
Plant in Service	10,067,389	491,301	-	10,558,690
Other Depreciable Assets	135,654	7,822	-	143,476
Construction in Progress	-	-	-	-
Totals at historical cost	10,368,752	499,123	-	10,867,875
Less accumulated depreciation:				
Depreciation	3,645,469	252,037		3,897,506
Total accumulated depreciation	3,645,469	252,037	-	3,897,506
Business-Type Activities Capital Assets - Net	\$ 6,723,283	\$ 247,086	\$ -	\$ 6,970,369

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

NOTE 5: CUSTOMERS

The amount of non-residential customers as of December 31, 2012 was 20. The number of residential customers as of December 31, 2012 was 1,449. The total was 1,469.

NOTE 6: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7: CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

NOTE 8: CHANGE IN ACCOUNTING PRINCIPLE

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

SUPPLEMENTAL INFORMATION

**WESTERN FLEMING COUNTY WATER DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2013**

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$3,000,000	7-1-14
Property-Building & Contents	\$4,217,856	7-1-14
Equipment & Vehicles	\$24,800	9-11-14
Treasurer and Commissioners	\$150,000	5-13-14
Workers Compensation	Statutory	7-1-14

Ages Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2013, accounts receivable were aged as follows:

	<u>Number Of Accounts</u>	<u>Amount</u>
Current	1,458	\$73,510
Over 30 Days	48	185
Over 60 Days	0	0
Over 90 Days	<u>77</u>	<u>3,935</u>
Total	1,519	\$77,608

During 2013, the District carried a reserve for possible uncollectible accounts of \$3,080.

The District had a total of 1,469 customers at December 31, 2013. Of these customers, 1,449 were residential, 18 were commercial, and 2 were resale.

DONNA J. HENDRIX
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
Western Fleming County Water District, Kentucky
Ewing, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards, applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Western Fleming County Water District as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Western Fleming County Water District, Kentucky's basic financial statements and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Fleming County Water District, Kentucky'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 Western Fleming County Water District, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Western Fleming County Water District, Kentucky'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 Western Fleming County Water District, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

March 28, 2014

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
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Board of Commissioners
Western Fleming County Water District
Ewing, Kentucky

In planning and performing my audit of the basic financial statements of Western Fleming County Water District for the year ended December 31, 2013, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for increasing operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated March 28, 2014, on the financial statements of the Western Fleming County Water District.

I will review the status of these comments and suggestions with various District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Donna J. Hendrix, CPA

DONNA J. HENDRIX, CPA

Morehead, Kentucky

March 28, 2014

WESTERN FLEMING COUNTY WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2013

Status of Prior Year Management Points

2012-1 Lack of Segregation of Duties

Due to the small size of the District, this is challenging. The District is still struggling in this area.

Current Year Management Points

2013-1 Lack of Segregation of Duties (Repeat of 2012-1 from prior year)

Condition: Due to the small size of the District there is a lack of segregation of duties. The office manager performs and manages all of the accounting transactions. While the work performed by the office manager is sufficient, there remains the overall problem of lack of segregation of duties.

Recommendation: The Board of Commissioners should provide more oversight.

Response: The Board will take steps to insure that separation of duties, where possible, is maximized.

2013-2 Proper Storage of Blank Check Stock

Condition: Currently, the blank check stock is stored on a shelf out in the open.

Recommendation: The blank check stock should be locked in a secure location.

Response: The Board is ordering a safe to store the blank check stock.