

EAST CASEY COUNTY WATER DISTRICT
Liberty, Kentucky

FINANCIAL STATEMENTS
December 31, 2014 and 2013

CONTENTS

Independent Auditors' Report.....	1-2
Financial Statements	
Statements of Net Position	3
Statements of Revenues, Expenses and Changes in Net Position.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements	6-10
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11-13



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Independent Auditors' Report

Board of Commissioners
East Casey County Water District
Liberty, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the East Casey County Water District, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 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 auditors' 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.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326

Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299

www.rfhco.com

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the East Casey County Water District, as of December 31, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated March 21, 2015 on our consideration of the East Casey County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering East Casey County Water District's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 21, 2015

EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31,

ASSETS	2014	2013
Current assets		
Cash and cash equivalents	\$ 914,574	\$ 512,108
Investments - certificates of deposit	846,827	843,450
Customer accounts receivable, net	133,191	124,353
Accrued interest receivable	804	804
	1,895,396	1,480,715
Restricted assets		
Cash and cash equivalents	38,630	605,337
Capital assets		
Land	82,544	59,657
Property, plant and equipment, net	12,912,526	11,985,763
Construction-in-progress	-	1,147,067
	12,995,070	13,192,487
TOTAL ASSETS	\$ 14,929,096	\$ 15,278,539
 LIABILITIES AND NET POSTION		
Current liabilities		
Accounts payable	\$ 107,361	\$ 101,617
Taxes payable	9,631	9,664
Construction payable	23,000	47,408
Customer deposits payable	30,775	30,225
Accrued interest payable	3,529	88,389
Current portion of long-term debt	-	71,000
	174,296	348,303
Long-term debt		
KIA Revolving Loan Payable	706,853	633,792
Bonds payable	2,990,552	2,972,000
	3,697,405	3,605,792
Net position		
Net investment in capital assets	9,297,665	9,515,695
Restricted for reserves	38,630	605,337
Unrestricted	1,721,100	1,203,412
	11,057,395	11,324,444
TOTAL LIABILITIES AND NET POSITION	\$ 14,929,096	\$ 15,278,539

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

EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
for the years ended December 31,

	2014	2013
OPERATING INCOME		
Water sales	\$ 1,586,526	\$ 1,549,500
Late charges	53,264	48,003
Other revenue	<u>24,790</u>	<u>31,690</u>
Total operating income	<u>1,664,580</u>	<u>1,629,193</u>
OPERATING EXPENSES		
Water purchases	648,230	625,008
Salaries	234,369	225,528
Employee benefits	122,242	126,777
Taxes	19,406	18,659
Office expense & postage	44,953	38,324
Insurance	31,128	29,969
Transportation expense	31,602	32,639
Line upkeep	98,041	116,395
Contract labor	58,126	71,596
Utilities & telephone	90,678	82,240
Legal & professional	51,325	12,798
Miscellaneous	16,237	10,804
Regulatory commission expenses	<u>3,180</u>	<u>2,942</u>
Total operating expense	<u>1,449,517</u>	<u>1,393,679</u>
Operating income before depreciation	215,063	235,514
Depreciation expense	<u>(311,923)</u>	<u>(298,321)</u>
OPERATING INCOME	(96,860)	(62,807)
Non-operating income (expenses)		
Interest income	9,003	13,083
Interest expense	(141,679)	(139,494)
Bond issue costs	<u>(109,632)</u>	<u>-</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	(339,168)	(189,218)
Capital Contributions		
Principal forgiveness	39,341	341,273
Tap fees	31,064	32,705
Other	<u>1,714</u>	<u>6,797</u>
Change in net position	(267,049)	191,557
Net position, beginning of year	<u>11,324,444</u>	<u>11,132,887</u>
NET POSITION END OF YEAR	<u>\$ 11,057,395</u>	<u>\$ 11,324,444</u>

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

**EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31,**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,655,742	\$ 1,622,583
Payment to suppliers	(1,028,519)	(951,457)
Payment for employee services and benefits	<u>(414,737)</u>	<u>(423,901)</u>
Net cash provided by operating activities	<u>212,486</u>	<u>247,225</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments	(237,000)	(68,500)
Payment for current refunding	(2,806,000)	-
Proceeds from new debt issue	3,102,954	975,065
Interest payments	(226,539)	(141,799)
Bond issue costs	(109,632)	-
Additions to property, plant and equipment	(138,914)	(1,141,402)
Tap fees	31,064	32,705
Other capital contributions	<u>1,714</u>	<u>6,797</u>
Net cash provided (used) by financing activities	<u>(382,353)</u>	<u>(337,134)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(3,377)	(4,820)
Interest income	<u>9,003</u>	<u>13,778</u>
Net cash provided by investing activities	<u>5,626</u>	<u>8,958</u>
NET INCREASE (DECREASE) IN CASH	(164,241)	(80,951)
Cash and cash equivalents at beginning of year	<u>1,117,445</u>	<u>1,198,396</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 953,204</u>	<u>\$ 1,117,445</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (96,860)	\$ (62,807)
Noncash items included in operating income		
Depreciation	311,923	298,321
Changes in assets and liabilities		
(Increase) decrease in receivables	(8,838)	(6,610)
Increase (decrease) in accounts payable	5,744	13,864
Increase (decrease) in customer deposits	550	4,275
Increase (decrease) in taxes/other payables	<u>(33)</u>	<u>182</u>
Net cash provided by operating activities	<u>\$ 212,486</u>	<u>\$ 247,225</u>

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

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

1. ORGANIZATION AND ACCOUNTING POLICIES

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

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net position consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system. These reserves are discussed in note 4.

The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from those estimates.

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include cash on hand, cash in bank and certificates of deposit with original maturities of 90 days or less.

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

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, and capital contributions.

Fixed assets are recorded at cost. Donated assets are valued at their fair market value on the date of donation. Interest incurred during the period of construction is capitalized as a part of the construction costs. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

The allowance for uncollectible accounts at December 31, 2014 and 2013 was \$474,250 and \$402,783, respectively. The District charges all uncollected accounts directly against current earnings. Charges against earnings for the years ended December 31, 2014 and 2013 were \$71,467 and \$48,059, respectively.

Investments consist of certificates of deposit with original maturities of 90 days or longer. Investments are recorded at cost, which approximates fair value.

The District has evaluated and considered the need to recognize or disclose subsequent events through March 21, 2015, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2014, have not been evaluated by the District.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

2. CASH AND CASH EQUIVALENTS

Statutory Requirements

The East Casey County Water District deposits at December 31, 2014 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. The bank balances of the District's deposits were \$1,807,918 at December 31, 2014.

Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Statement of Cash Flows

The Statement of Cash Flows includes as cash and cash equivalents the following:

	2014		2013	
Cash	\$ 914,574		\$ 512,108	
Restricted Cash	<u>38,630</u>		<u>605,337</u>	
	<u>\$ 953,204</u>		<u>\$ 1,117,445</u>	

3. PROPERTY, PLANT, AND EQUIPMENT

A summary of capital asset activity during the year follows:

	Balance 12/31/13	Additions	Deductions	Balance 12/31/14
Capital assets not depreciated:				
Land	\$ 59,657	\$ 22,887	\$ -	\$ 82,544
Construction in Progress	<u>1,147,067</u>	<u>69,994</u>	<u>(1,217,061)</u>	<u>-</u>
Totals	<u>1,206,724</u>	<u>92,881</u>	<u>(1,217,061)</u>	<u>82,544</u>
Capital assets that are depreciated:				
Personal Property & Equipment	<u>17,202,331</u>	<u>1,238,686</u>	<u>(13,284)</u>	<u>18,427,733</u>
Less Accumulated Depreciation	<u>5,216,568</u>	<u>311,923</u>	<u>(13,284)</u>	<u>5,515,207</u>
Totals	<u>11,985,763</u>	<u>926,763</u>	<u>-</u>	<u>12,912,526</u>
Capital Assets, net	<u>\$ 13,192,487</u>	<u>\$ 1,019,644</u>	<u>\$ (1,217,061)</u>	<u>\$ 12,995,070</u>

4. LONG-TERM DEBT

In December 2014, the Kentucky Bond Corporation issued Series 2014E Revenue Bonds for the District in order to refund all prior outstanding bonds. This issue contained a premium in the amount of \$30,552, which has been reported with bonds payable and is being amortized over the term of the debt. The new issue will reduce debt service payments by \$753,224 and has a net economic gain of \$149,472. This issue requires annual premium payments beginning in February 2016, ranging from \$105,000 to \$145,000 and bears interest at an average rate of 3.63%.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

4. LONG-TERM DEBT (CONTINUED)

The District has obtained a Federally Assisted Drinking Water Revolving Loan from the Kentucky Infrastructure Authority in order to fund the Various Waterline Extensions Project. The District is taking draws on the loan as the project progresses. During 2014, the District obtained draws totaling \$112,402, in order to fund project expenses. As part of the loan agreement, the District is entitled to principal forgiveness in the amount of 35%. Due to this provision, the District has recognized \$39,341 of principal forgiveness in current year operations; this amount represents 35% of the draws obtained during 2014. Final loan and forgiveness amounts will be based on actual project costs, except total draws cannot exceed \$1,545,000. Upon completion, the loan will have a stated interest rate of 1% to be repaid over 20 years. This loan will be reflected in long-term liabilities until all funds have been drawn down and the project is complete.

The annual requirements to amortize all long-term debt outstanding as of December 31, 2014, are as follows:

Year Ending	Principal	Interest	Fees	Payment
2015	\$ -	\$ 57,225	\$ -	\$ 57,225
2016	105,000	90,919	8,754	204,673
2017	110,000	88,768	7,588	206,356
2018	115,000	86,519	7,312	208,831
2019	115,000	84,219	7,025	206,244
2020-2024	630,000	369,444	30,650	1,030,094
2025-2029	695,000	267,734	22,350	985,084
2030-2034	625,000	157,125	13,875	796,000
2035-2039	<u>565,000</u>	<u>51,325</u>	<u>6,388</u>	<u>622,713</u>
	<u>2,960,000</u>	<u>1,253,278</u>	<u>103,942</u>	<u>4,317,220</u>
KIA Revolving Loan Fund	706,853			
Premium on Refunding	<u>30,552</u>			
	<u>\$ 3,697,405</u>	<u>\$ 1,253,278</u>	<u>\$ 103,942</u>	<u>\$ 5,054,625</u>

The following is a summary of long term debt for the year ended December 31, 2014:

	Interest Rate	Balance January 1, 2014	Issued	Principal Payments (Forgiveness)	Balance December 31, 2014
Series 1987	5.00%	\$ 176,000	\$ -	\$ 176,000	\$ -
Series 1990	5.00%	333,000	-	333,000	-
Series 1993	4.50%	294,000	-	294,000	-
Series 1997	4.50%	422,000	-	422,000	-
Series 2000	4.50%	509,000	-	509,000	-
Series 2004	4.50%	367,000	-	367,000	-
Series 2007	4.38%	942,000	-	942,000	-
KY Bond Corporation	3.63%	-	2,960,000	-	2,960,000
Premium on Refunding	-	-	30,552	-	30,552
KIA Revolving Loan	1.00%	<u>633,792</u>	<u>112,402</u>	<u>39,341</u>	<u>706,853</u>
		<u>\$ 3,676,792</u>	<u>\$ 3,102,954</u>	<u>\$ 3,082,341</u>	<u>\$ 3,697,405</u>

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

4. LONG-TERM DEBT (CONTINUED)

Per the assistance agreement with KIA, the District is required to maintain a depreciation reserve in the amount of \$38,630. The District met this requirement at December 31, 2014. Additional restrictions were in affect for the refinanced debt for the year ended December 31, 2013. The District met these requirements at December 31, 2013.

5. RETIREMENT PLAN

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended December 31, 2014, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2014, participating employers contributed 18.89% through June 30 and 17.67% thereafter, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employer and employee) and the actual percentage contributed for the District for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2014	\$ 52,560	100%
2013	\$ 55,011	100%
2012	\$ 52,756	100%

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.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

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.

8. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income or fund balances as previously reported.

9. SUBSEQUENT EVENT

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments 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.

Statement No. 68 will take effect for pension plans in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The District is currently evaluating the effects of this statement on its financial statements. The District's potential unfunded liability, based on June 30, 2014 plan financial statements, is estimated to be \$424,000. The actual liability for December 31, 2015 could be considerably different due to changes in system assumptions and liabilities.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
East Casey County Water District
Liberty, 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 East Casey County Water District (the "District") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the East Casey County Water District's basic financial statements and have issued our report thereon dated March 21, 2015.

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 opinions 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.

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 a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (2014-1).

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.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)**

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*.

East Casey County Water District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 21, 2015

**EAST CASEY COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2014**

FINDING:

2014-1

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.