

**CALDWELL COUNTY WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

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**FINANCIAL STATEMENTS**  
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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Commissioners  
Caldwell County Water District  
Princeton, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Caldwell County Water District as of and for the year ended December 31, 2014, and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the District's December 31, 2013 financial statements and, in our report dated March 13, 2014, we expressed an unqualified opinion on the respective financial statements.

### **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 the 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 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 assessments 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**

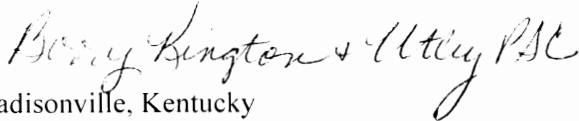
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Caldwell County Water District as of December 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year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

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated March 12, 2015, on our consideration of the Caldwell County Water District's internal control over financial reporting and 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.



Madisonville, Kentucky  
March 12, 2015

**CALDWELL COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014  
(UNAUDITED)**

The Caldwell County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the years ended December 31, 2014 and 2013. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

The Caldwell County Water District reports the annual financial statements in a required model format issued by the Governmental Accounting Standards Board (GASB).

**FINANCIAL HIGHLIGHTS**

The District's 2014 operating revenues of \$1,113,224 increased 7.2% from the 2013 amount, while operating expenses for 2014 of \$1,202,096 increased 6.3%. Non-operating income for 2014, consisted of interest income of \$1,988 and capital contributions or tap on fees of \$11,516.

The District's net position decreased by \$211,763 resulting in a December 31, 2014 balance of \$7,026,370. This balance represents a 3% decrease in net position over the December 31, 2013 balance of \$7,238,133.

The District's unrestricted cash available for operating expenses was \$529,329 at December 31, 2014.

The District's investment in capital assets was \$9,171,217 net of depreciation at December 31, 2014.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Caldwell Count Water District's basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

**Statement of net position.** The statement of net position presents the financial position of the District. It presents information on the District's assets and deferred outflows, liabilities, and deferred inflows 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 net position can be found on page 8.

**Statement of revenues, expenses and changes in net position.** 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 related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 9 of this report.

**Statement of cash flows.** The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 10.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 11 - 25 of this report.

**DISTRICT FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$7,026,370 as of December 31, 2014.

The District's overall financial position and operations for the past two years are summarized as follows:

**CALDWELL COUNTY WATER DISTRICT'S  
NET POSITION**

	2014	2013
Assets:		
Current and other assets	\$ 1,308,043	\$ 1,132,027
Capital assets	9,171,217	9,493,594
Total Assets	10,479,260	10,625,621
Liabilities:		
Other liabilities	155,890	80,488
Current portion of long-term debt	83,000	83,000
Long-term liabilities	3,214,000	3,224,000
Total Liabilities	3,452,890	3,387,488
Net Position:		
Net investment in capital assets	5,874,217	6,186,594
Restricted	563,478	528,631
Unrestricted	588,675	522,908
Total Net Position	\$ 7,026,370	\$ 7,238,133

The largest portion of the District's net position (83.6%) reflects its investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies and mapping and infrastructure), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position (8%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position \$588,675 may be used to meet the District's ongoing obligations to citizens and creditors.

As of December 31, 2014, the District is able to report positive balances in all three categories of net position.

**Analysis of the District's Operations** – Overall the District had a decrease in net position of \$211,763.

The following table provides a summary of the District's operations for the year ended December 31, 2014 and 2013.

**CALDWELL COUNTY WATER DISTRICT  
CHANGES IN NET POSITION**

	<u>2014</u>	<u>2013</u>
<b>Revenues</b>		
Water revenues	\$ 1,081,053	\$ 1,005,936
Other sales	32,171	32,259
Investment income	1,988	2,380
Gain (loss) on sale of assets	5,001	-
Capital grants and contributions	<u>11,516</u>	<u>21,240</u>
Total revenues	<u>1,131,729</u>	<u>1,061,815</u>
<b>Expenses</b>		
Depreciation and amortization	389,022	383,860
Source of supply purchases	291,583	269,300
Administrative and general expenses	288,696	284,611
Transmission and distribution expenses	199,419	156,725
Interest on debt and other	141,396	144,954
Payroll and other taxes	15,617	14,687
Customer accounts expenses	10,722	9,640
Water treatment	5,803	5,585
Bad debts	1,234	5,671
Special items - Caldwell County Fiscal Court	<u>-</u>	<u>15,000</u>
Total Expenses	<u>1,343,492</u>	<u>1,290,033</u>
Change in net position	(211,763)	(228,218)
Net position - January 1	<u>7,238,133</u>	<u>7,466,351</u>
Net position - December 31	<u>\$ 7,026,370</u>	<u>\$ 7,238,133</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS**

Overall, the District's financial position is consistent with the previous year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital assets

The District's investment in capital assets for business-type activities as of December 31, 2014, amounts to \$9,171,217 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure. The total decrease in the District's net investment in capital assets for the fiscal year was 5.1%.

	2014	2013
<b>Business-type activities:</b>		
Capital assets, not being depreciated:		
Land	\$ 9,000	\$ 9,000
Total capital assets, not being depreciated	9,000	9,000
Capital assets, being depreciated:		
Transmission and distribution	8,968,435	9,293,719
Furniture and fixtures	11,970	15,330
Machinery and equipment	89,188	77,260
Building	86,641	91,803
Leasehold improvements	5,983	6,482
Total capital assets, being depreciated	9,162,217	9,484,594
Business-type activities capital assets, net	\$ 9,171,217	\$ 9,493,594

During the year ended December 31, 2014, the District acquired assets totaling \$66,645 with \$15,702 of that amount being meter sets and \$19,951 being for a 2012 Cargo Van.

Additional information on the District's capital assets can be found in Note 4 of this report.

### Long-term and other debt

At the end of the current year, the Caldwell County Water District had total debt of \$3,297,000. No new debt was issued in 2014. Long-term debt at December 31, 2014, was as follows:

	2014	2013
Waterworks revenue series 1993	\$ 293,500	\$ 293,500
Waterworks revenue series 1996	692,000	692,000
Waterworks revenue series 1999	656,500	656,500
Waterworks revenue series 2000	348,000	348,000
Waterworks revenue series 2002	710,000	710,000
Waterworks revenue series 2004	542,000	542,000
KIA loan 1993	55,000	65,000
Total	\$ 3,297,000	\$ 3,307,000

Interest expense of \$141,412 was incurred during the year ended December 31, 2014.

Additional information on the District's long-term debt can be found in Note 6 of this report.



## **REQUEST FOR INFORMATION**

This financial report is designated to provide a general overview of the Caldwell County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Jimmy Littlefield, Superintendent, Caldwell County Water District, 118 West Market Street, Princeton, KY 42445.

**Caldwell County Water District**  
**Statements of Net Position**  
**December 31, 2014 and 2013**

<b><u>Assets</u></b>	<b><u>ASSETS</u></b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
Cash equivalents	\$ 529,329	\$ 403,852
Investments	20,056	19,998
Customer accounts receivable (less allowance for uncollectible accounts of \$9,536 and \$8,494)	94,666	88,116
Unbilled revenue	77,360	72,298
Inventory	23,157	19,131
Prepayments	9,386	8,405
Restricted assets:		
Cash equivalents	33,093	28,003
Investments	520,996	492,224
Capital assets, net of depreciation	<u>9,171,217</u>	<u>9,493,594</u>
Total Assets	<u>10,479,260</u>	<u>10,625,621</u>
	<b><u>LIABILITIES</u></b>	
<b><u>Liabilities</u></b>		
Trade accounts payable	36,846	30,825
Accrued liabilities	17,759	22,663
Accrued interest on debt	69,195	-
Customers' deposits	32,090	27,000
Long-term debt due in one year	83,000	83,000
Noncurrent liabilities:		
Long-term debt due after one year	<u>3,214,000</u>	<u>3,224,000</u>
Total Liabilities	<u>3,452,890</u>	<u>3,387,488</u>
	<b><u>NET POSITION</u></b>	
<b><u>Net Position</u></b>		
Net investment in capital assets	5,874,217	6,186,594
Restricted for:		
Debt service and customer deposits	563,478	528,631
Unrestricted	<u>588,675</u>	<u>522,908</u>
Total Net Position	<u>\$ 7,026,370</u>	<u>\$ 7,238,133</u>

See accompanying notes to financial statements.

**Caldwell County Water District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b><u>Operating Revenue</u></b>		
Water revenues	\$ 1,081,053	\$ 1,005,936
Other	32,171	32,259
Total Operating Revenues	<u>1,113,224</u>	<u>1,038,195</u>
<b><u>Operating Expenses</u></b>		
Depreciation	389,022	383,860
Source of supply purchases	291,583	269,300
Administrative and general expenses	288,696	284,611
Transmission and distribution expenses	199,419	156,725
Payroll and other taxes	15,617	14,687
Customer accounts expenses	10,722	9,640
Bad debts	1,234	5,671
Water treatment	5,803	5,585
Total Operating Expenses	<u>1,202,096</u>	<u>1,130,079</u>
<b><u>Operating Income (Loss)</u></b>	<u>(88,872)</u>	<u>(91,884)</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>		
Investment income	1,988	2,380
Gain (loss) on capital asset disposals	5,001	-
Interest on debt	(141,396)	(144,954)
Total Nonoperating Revenue (Expenses)	<u>(134,407)</u>	<u>(142,574)</u>
<b><u>Net Income before Capital Contributions</u></b>	(223,279)	(234,458)
<b><u>Capital Contributions</u></b>	11,516	21,240
<b><u>Special Items: Contribution to Caldwell County Fiscal Court</u></b>	<u>-</u>	<u>(15,000)</u>
<b><u>Change in Net Position</u></b>	(211,763)	(228,218)
<b><u>Net Position-Beginning of Year</u></b>	<u>7,238,133</u>	<u>7,466,351</u>
<b><u>Net Position-End of Year</u></b>	<u>\$ 7,026,370</u>	<u>\$ 7,238,133</u>

See accompanying notes to financial statements.

**Caldwell County Water District**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b><u>Cash Flows from Operating Activities</u></b>		
Cash received from customers	\$ 1,101,612	\$ 1,040,239
Cash payments to suppliers for goods and services	(497,691)	(446,887)
Cash payments to employees for services	(314,241)	(291,005)
Net Cash Provided By Operating Activities	<u>289,680</u>	<u>302,347</u>
<b><u>Cash Flows From Capital and Related Financing Activities</u></b>		
Principal paid on capital debt	(10,000)	(79,500)
Contributed capital	11,516	21,240
Acquisition of property, plant, and equipment	(66,645)	(23,260)
Payment to Caldwell County in lieu of line construction	-	(13,300)
Proceeds from the sale of assets	5,001	-
Interest paid on debt	(72,201)	(144,954)
Net Cash Used by Capital and Related Financing Activities	<u>(132,329)</u>	<u>(239,774)</u>
<b><u>Cash Flows From Investing Activities</u></b>		
Income received on investments	1,988	2,380
Purchase of investment securities	(28,772)	(29,551)
Net Cash Used By Investing Activities	<u>(26,784)</u>	<u>(27,171)</u>
<b><u>Net Increase (Decrease) in Cash Equivalents</u></b>	130,567	35,402
<b><u>Cash Equivalents-Beginning of Year</u></b>	431,855	396,453
<b><u>Cash Equivalents-End of Year</u></b>	<u>\$ 562,422</u>	<u>\$ 431,855</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided</u></b>		
<b><u>By Operating Activities</u></b>		
Operating Income (Loss)	\$ (88,872)	\$ (91,884)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	389,022	383,860
Change in assets and liabilities		
Decrease (increase) in accounts receivable	(11,612)	2,044
Decrease (increase) in inventory	(4,026)	1,348
Decrease (increase) in prepayments	(984)	106
Increase (decrease) in accounts payable	5,966	(5,952)
Increase (decrease) in customer deposits	5,090	9,420
Increase (decrease) in accrued liabilities	(4,904)	3,405
Net Cash Provided By Operating Activities	<u>\$ 289,680</u>	<u>\$ 302,347</u>
<b><u>Reconciliation of Total Cash</u></b>		
Current Assets - Cash	\$ 529,329	\$ 403,852
Restricted Assets - Cash	33,093	28,003
Total Cash	<u>\$ 431,855</u>	<u>\$ 396,453</u>
<b><u>Non-cash Investing, Capital and Related Financing Activities - None</u></b>		

See accompanying notes to financial statements.

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Caldwell County Water District, (the District), is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Princeton, Kentucky and primarily serves rural Caldwell County.

The accounting and reporting policies of the District relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The District adopted GASB 65 and GASB 66 in the current year. The more significant accounting policies of the District are described below:

**Principles Determining Scope of Reporting Entity**

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

**Basis of Presentation**

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, net position, revenues and expenses. The following funds are used by the District:

*Proprietary Fund Types*

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statements of Net Position.

**Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

**Reclassifications**

Prior period financial statement amounts have been reclassified to conform to current period presentation. Operating income and net earnings for the prior period were not impacted by the reclassifications.

**Budget**

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2014, the District has complied with budgetary guidelines.

**Cash Equivalents/ Investments**

Cash equivalents are deposited with First Southern National Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2014 are recorded as prepaid items.

**Post Employment Benefits**

Post employment benefits are those received by employees after termination of employment. The District provides no such benefits.

**Capital Assets**

Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Transmission and Distribution Equipment	20 to 65 years
Furniture, Machinery and Equipment	5 to 10 years
Leasehold Improvements	15 to 25 years
Vehicles	3 to 5 years

**Allowance for Uncollectible Accounts**

An allowance for uncollectible accounts has been provided based on an analysis of receivables outstanding more than 120 days. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the December 31, 2014 accounts receivable.

**Inventory**

Inventories are generally used for repair and replacement of infrastructure and connection of new services and are stated at average cost.

**Restricted Assets**

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed. See Note 3 for information describing restricted assets.

**Estimates**

The preparation of the District's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**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 disaster. During the year ended December 31, 2014, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

**Net Position**

In the financial statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

**Adoption of New Accounting Pronouncements**

*GASB Statement No. 67*

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, was issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement is intended to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The District's management has not yet determined the effect this statement will have on the District's financial statements.

*GASB Statement No. 69*

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, was issued January 2013. The provisions of this Statement are effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The District's management has not yet determined the effect this statement will have on the District's financial statements.

*GASB Statement No. 70*

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, was issued April 2013. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange guarantees and by those governments that receive nonexchange guarantees. The District's management has not yet determined the effect this statement will have on the District's financial statements.



**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

**Recent Accounting Pronouncements**

As of December 31, 2014, the GASB has issued the following statements not yet required to be adopted by the District.

*GASB Statement No. 68*

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, was issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first-time, and to more comprehensively and comparably measure the annual cost of pension benefits. Cost-sharing governmental employers will also be required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

All governments participating in the defined benefit pension plan would also have the following in their note disclosures:

- Descriptions of the plan and benefits provided
- Significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the discount rate and impact on the total pension liability of a 1 percentage point increase and decrease in the discount rate
- Net pension assets and liabilities

Beginning July 1, 2015, each participating entity in the Kentucky County Employees Retirement System (CERS) will report its proportionate share of the cumulative "net pension liability" in their own accrual accounting-based financial statements. The net pension liability is defined as the difference between the current value of long-term benefits promised and the value of currently held assets. Further, each agency will be required to report the plan's total liability, net pension, covered-employee payroll, and ratio of net pension liability to payroll.

The CERS total actuarial accrued liability for all participating entities was \$12,503,100,000 and the net assets available for the benefits were \$7,438,800,000 as of June 30, 2013, which is the latest information available. See Note 5.

*GASB Statement No. 71*

GASB Statement No. 71, *Accounting and Financial Reporting for Pensions*, was issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The District's management has not yet determined the effect this statement will have on the financial statements.

*GASB Statement No. 72*

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued February 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. This statement provides guidance for determining a fair value measurement for financial reporting purpose. This Statement also provides guidance for applying fair value to certain investments

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and disclosures related to all fair value measurements. The District's management as not yet adopted this statement.

**Subsequent Events**

The District has evaluated subsequent events through March 12, 2015, the date which the financial statements were available to be issued.

**2. DEPOSITS AND INVESTMENTS**

**1. Net Position**

The captions on the statements of net position for cash, investments and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	<u>Cash on Hand</u>	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash equivalents	\$ 550	\$ 528,779	\$ -	\$ 529,329
Investments	-	20,056	-	20,056
Restricted assets:				
Cash equivalents	-	33,093	-	33,093
Investments	-	<u>520,996</u>	-	<u>520,996</u>
Total	<u>\$ 550</u>	<u>\$ 1,102,924</u>	<u>\$ -</u>	<u>\$ 1,103,474</u>

**2. Deposits**

At year-end, the carrying amount of the District's deposits in financial institutions was \$1,103,474 and the bank balances were \$1,113,245. Of the bank balances, \$250,000 was covered by federal depository insurance, with \$863,245 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

The collateral agreement with First Southern Bank states that \$863,245 of securities will be held as collateral for the District year round. The agreement states that it is the District's responsibility to inform the bank in a timely manner when the District will have deposits that will exceed the amount of securities pledged in order for the Bank to purchase additional securities for collateral.

**3. Investments**

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

invested with one issuer. At December 31, 2014, the District had 100% of its investments in fully collateralized certificates of deposit.

*Identification*

At December 31, 2014, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of Deposit:		
First Southern National Bank	12/21/2015	\$ 316,509
First Southern National Bank	12/21/2015	204,487
First Southern National Bank	12/21/2015	<u>20,056</u>
Total Investments		<u>\$ 541,052</u>

**3. RESTRICTED NET ASSETS**

**Net Assets Restricted for Debt Retirement**

	<u>Depreciation Fund</u>	<u>Sinking Fund</u>	<u>Water Projects</u>	<u>Customer Meter Deposits</u>	<u>Total</u>
Cash equivalents	\$ -	\$ -	\$ 1,003	\$ 32,090	\$ 33,093
Investments:					
Certificates of deposit	<u>316,509</u>	<u>204,487</u>	-	-	<u>520,996</u>
Totals	<u>\$ 316,509</u>	<u>\$ 204,487</u>	<u>\$ 1,003</u>	<u>\$ 32,090</u>	<u>\$ 554,089</u>

**Restricted Cash**

The Caldwell County Water District Bonds (All Series) require the District establish a Sinking Reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve month period on all of the outstanding bonds. The District has been making the required monthly deposits of \$17,813 to service the outstanding debt. At December 31, 2014, the balance of the Sinking Reserve was 204,487.

The bond agreements also required that a Depreciation Account be funded monthly. The 1999 Series Bonds require that amounts be deposited over the life of the Bonds. The remaining series require the Depreciation Fund be funded until the balance reaches certain amounts with the maximum amount being \$79,800. The District is funding the Depreciation Fund monthly as required, depositing \$2,061 per month. At December 31, 2014, the balance of the Depreciation Fund was \$316,509.

The District maintains a water project account for use when special projects require funding. At December 31, 2014, that balance was \$1,003. There were no special projects in process.

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

4. **CAPITAL ASSETS**

A summary of proprietary fund property, plant and equipment at December 31, 2014 for business-type activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 9,000	\$ -	\$ -	\$ 9,000
Total capital assets, not being depreciated	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>9,000</u>
Capital assets, being depreciated:				
Transmission and distribution	13,795,394	23,342	-	13,818,736
Furniture and fixtures	68,691	2,755	-	71,446
Machinery and equipment	257,243	40,548	(25,303)	272,488
Building	103,242	-	-	103,242
Leasehold improvements	<u>35,250</u>	<u>-</u>	<u>-</u>	<u>35,250</u>
Total capital assets, being depreciated	<u>14,259,820</u>	<u>66,645</u>	<u>(25,303)</u>	<u>14,301,162</u>
Less accumulated depreciation for:				
Transmission and distribution	(4,501,676)	(348,625)	-	(4,850,301)
Furniture and fixtures	(53,361)	(6,115)	-	(59,476)
Machinery and equipment	(179,983)	(28,620)	25,303	(183,300)
Building	(11,439)	(5,162)	-	(16,601)
Leasehold improvements	<u>(28,767)</u>	<u>(500)</u>	<u>-</u>	<u>(29,267)</u>
Total accumulated depreciation	<u>(4,775,226)</u>	<u>(389,022)</u>	<u>25,303</u>	<u>(5,138,945)</u>
Total capital assets, being depreciated, net	<u>9,484,594</u>	<u>(322,377)</u>	<u>-</u>	<u>9,162,217</u>
Business-type activities capital assets, net	<u>\$ 9,493,594</u>	<u>\$ (322,377)</u>	<u>\$ -</u>	<u>\$ 9,171,217</u>

Depreciation charged to income was \$389,022

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

5. **EMPLOYEES' RETIREMENT PLAN**  
**County Employees' Retirement System**

1. **Plan Description and Provisions**

The District is a participant in the Commonwealth of Kentucky's County Employees' Retirement System (CERS), a cost sharing, multi-employer public employee retirement system. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Under the provision of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by called (502) 564-4646.

2. **Funding Policy**

Hazardous position employees are required to contribute 8% to the plan and nonhazardous position employees are required to contribute 5% of their creditable compensation by State statute. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed to a health insurance account. The District is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. For the years ended December 31, 2014, 2013, and 2012, the District contributed 17.67%, 18.89%, and 19.55%, respectively for each nonhazardous employee's creditable compensation. These actuarially determined rates are set by the Board of Trustees of Kentucky Retirement Systems.

Schedule of Employer Contributions:

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contribution
December 31, 2014	48,420	48,420	100%
December 31, 2013	48,243	48,243	100%
December 31, 2012	36,787	36,787	100%

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) and 8% (hazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) and 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

**3. Post-retirement Healthcare Benefits**

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides post-retirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. For the fiscal year ended June 30, 2014, (the date of the latest available information), insurance premiums withheld from benefit payments to members of the CERS approximated \$24,206,307 nonhazardous. As of June 30, 2014, the Fund had 104,635 retirees and beneficiaries for whom benefits were available. The allocation of insurance premiums paid by the Fund and amounts withheld from member benefits is based on years of service with the Systems.

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

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
20 or more	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less than 4	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating 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 (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years. The increases commenced with the 1997 valuation used by the Kentucky General Assembly to establish employer contribution rates for the biennium.

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

6. **DEBT OBLIGATIONS**

**Revenue Bonds Payable**

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2014</u>	<u>Due in One Year</u>
Waterworks Revenue Bonds				
Series 1993	5.00%	2033	\$ 293,500	\$ 9,500
Series 1996	4.875%	2035	692,000	19,000
Series 1999	3.25%	2039	656,500	15,000
Series 1999	4.375%	2039	348,000	7,500
Series 2002	4.375%	2042	710,000	13,000
Series 2004	4.125%	2044	542,000	9,000
Total			<u>3,242,000</u>	<u>\$ 73,000</u>
Less current portion			<u>(73,000)</u>	
Long-term portion			<u>\$ 3,169,000</u>	

Principal and interest requirements of the revenue bonds payable as of December 31, 2014 are:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest &amp; Fees</u>	<u>Total</u>
2015	73,000	136,813	209,813
2016	76,500	133,578	210,078
2017	79,500	130,200	209,700
2018	84,000	126,660	210,660
2019	88,000	122,935	210,935
2020-2024	507,000	331,156	838,156
2025-2029	636,500	478,074	1,114,574
20230-2034	785,000	335,352	1,120,352
2035-2039	641,500	180,951	822,451
2040-2043	271,000	71,215	342,215
Total	<u>\$ 3,242,000</u>	<u>\$2,046,934</u>	<u>\$ 5,288,934</u>

Information on individual debt instruments follows:

Series 1993

During 1993, Caldwell County Water District adopted a resolution to issue \$410,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1993 dated October 22, 1993 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$205 per month until there is accumulated an amount of at least \$24,600. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

Principal maturities falling due prior to January 1, 2009 shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2009 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2009 at par plus accrued interest, without any prepayment penalty. Interest, at 5.0% is paid each January 1 and July 1.

*Series 1996*

During 1996, Caldwell County Water District adopted a resolution to issue \$900,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1996 dated November 12, 1996 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$611 per month until there is an accumulated amount of at least \$79,800. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

Principal maturities falling due prior to January 1, 2009 shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2009 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2009 at par plus accrued interest, without any prepayment penalty. Interest, at 4.875% is paid each January 1 and July 1.

*Series 1999*

During 1999, Caldwell County Water District adopted a resolution to issue \$800,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1999 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$370 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.375% is paid each January 1 and July 1.



**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

*Series 1999*

During 1999, Caldwell County Water District adopted a resolution to issue \$420,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2000 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$205 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 3.25% is paid each January 1 and July 1.

*Series 2003*

During 2004, Caldwell County Water District adopted a resolution to issue \$815,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2003 dated June 17, 2004 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$390 per month until there is accumulated in the Depreciation Fund the sum of at least \$46,800. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 3.25% is paid each January 1 and July 1.

*Series 2004*

During 2005, Caldwell County Water District adopted a resolution to issue \$600,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2004 dated September 27, 2005 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$280 per month until there is accumulated in the Depreciation Fund the sum of at least \$33,600. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.125% is paid each January 1 and July 1.

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

**Kentucky Infrastructure Authority Note Payable**

In July 2004, Caldwell County Water District entered into an assistance agreement with Kentucky Infrastructure Authority. Assistance in the form of a \$150,000 loan was provided for line expansion. The loan is to be repaid in monthly installments beginning in September 2004 and ending June 2018. Interest is variable ranging from 2.25% to 5.25%.

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u> <u>&amp; Fees</u>	<u>Total</u>
2015	10,000	2,522	12,522
2016	10,000	2,096	12,096
2017	20,000	6,608	26,608
2018	15,000	668	15,668
Total	<u>\$ 55,000</u>	<u>\$ 11,894</u>	<u>\$ 66,894</u>

**Changes in Business-Type Activities Debt**

A summary of changes in the business-type activities debt for the year ended December 31, 2014 follows:

	<u>Balance</u> <u>12/31/2013</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12/31/2014</u>	<u>Due Within</u> <u>One Year</u>
<u>Business-Type Activities:</u>				
Revenue Bonds Payable	\$ 3,242,000	\$ -	\$ 3,242,000	\$ 73,000
Kentucky Infrastructure Authority	<u>65,000</u>	<u>10,000</u>	<u>55,000</u>	<u>10,000</u>
Total Business-Type Activities	<u>\$ 3,307,000</u>	<u>\$ 10,000</u>	<u>\$ 3,297,000</u>	<u>\$ 83,000</u>

7. **COMMITMENTS**

**Purchase Contracts**

**South Hopkins Water District**

On March 3, 2004, the District entered into a long-term contract with South Hopkins Water District for the purchase of treated water. The contract for water is for a period of 40 years and calls for water sales not to exceed 250,000 gallons per month and not to exceed 15,000 gallons in any 24-hour period unless an emergency exists. The rate is equal to the cost of water from Dawson Springs, plus amortization of supply facilities (\$0.12 per 1,000 gallons), plus additional plumbing costs, plus 25%. Effective July 1, 2012 the rate changed to \$2.48 per 1,000 gallons. Payment is due by the 20th of each month. The District purchased \$2,250 from South Hopkins Water District during the year ended December 31, 2014.

**Princeton Water & Wastewater**

On October 11, 2002, the District entered into a long-term contract with Princeton Water & Wastewater for the purchase of treated water. The contract for water is for a period of 45 years and calls for water sales not to exceed 12 million gallons per month. The rate increased on November 4, 2010 to \$2.706 per 1,000 gallons. Another rate increase of \$3.058 per 1,000 gallons was effective June 30, 2014. Payment is due by the 15th of each month. The District purchased \$288,331 from Princeton Water & Wastewater during the year ended December 31, 2014.

**Caldwell County Water District**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2014 and 2013**

**Caldwell County Fiscal Court**

On April 8, 2010, the District entered into a lease agreement with the Caldwell County Fiscal Court to lease the premises located at 118 W. Market Street. The term of this lease is for ten (10) years, ending on March 31, 2020, subject however to continuation of four (4) ten (10) year consecutive terms at the mutual agreement of both parties. There are no monetary terms associated with the lease, however, the District is responsible for taxes and insurance on the property.

**8. PUBLIC SERVICE COMMISSION REGULATIONS**

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2014 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

**9. ECONOMIC DEPENDENCIES**

The majority of the District's revenue consists of charges for water-related services to customers in Caldwell County, Kentucky. For the year ended December 31, 2014, the revenues from these sources totaled \$1,087,715. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

**10. COMPENSATED ABSENCES**

The District grants employees vacation time based on years of service. Full-time employees, with one (1) year continuous service, are entitled to vacation pay according to the following schedule:

1 to 3 years	1 week
3 to 10 years	2 weeks
10+ years	3 weeks

Employees must use vacation within the twelve month period after the time is earned. Upon termination of employment, an employee will be paid for all unused vacation leave. The liability for unused vacation time at December 31, 2014 was \$6,808.

The District's policy on sick pay states that employees will be granted one sick day per month. During the employee's probationary period sick leave may be earned but not taken. Sick leave is forfeited upon termination of employment. The District's policy is to recognize the cost of compensated medical leave when actually paid to employees.

**11. LITIGATION**

The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

**Caldwell County Water District**  
**Detail Schedules of Operating Expenses**  
**For the Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b><u>Depreciation expense</u></b>	\$ <u>389,022</u>	\$ <u>383,860</u>
<b><u>Water purchases</u></b>	<u>291,583</u>	<u>269,300</u>
<b><u>General operating expenses</u></b>		
Salaries & wages	109,923	111,644
Retirement	37,359	38,058
Employee insurance	35,546	27,126
Fuel	23,163	23,099
Utilities	22,885	22,859
Legal & professional	20,160	20,280
Insurance	16,706	16,448
Dues & subscriptions	5,611	2,125
Office supplies	4,791	4,583
License fees	3,355	2,364
Uniforms	2,678	2,481
Other contract services	2,121	9,429
Travel	2,014	2,178
Training & education	1,943	1,485
Advertising	314	-
Miscellaneous	127	452
Total general operating expenses	<u>288,696</u>	<u>284,611</u>
<b><u>Transmission and distribution expenses</u></b>		
Salaries & wages	110,893	102,895
Repairs & maintenance	45,622	18,588
Contract labor - meter reading	19,018	23,077
Supplies & materials	16,116	10,246
Equipment rent	3,983	480
Tools and equipment	3,787	1,439
Total water expenses	<u>199,419</u>	<u>156,725</u>
<b><u>Payroll and other taxes</u></b>	<u>15,617</u>	<u>14,687</u>
<b><u>Customer accounts expenses</u></b>		
Postage	9,698	8,824
Credit card fees	794	619
Collection Fees	230	197
Total customer accounts expenses	<u>10,722</u>	<u>9,640</u>
<b><u>Bad debt expense</u></b>	<u>1,234</u>	<u>5,671</u>
<b><u>Water treatment</u></b>		
Testing	5,803	4,974
Chemicals	-	611
Total water treatment	<u>5,803</u>	<u>5,585</u>
<b><u>Total operating expenses</u></b>	<u>\$ 1,202,096</u>	<u>\$ 1,130,079</u>

**Caldwell County Water District**  
**Schedule of Revenues, Expenses, and**  
**Changes in Net Position - Budget and Actual**  
**For the Year Ended December 31, 2014**

	2014			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>Revenues:</b>				
Water revenues	\$ 1,018,600	\$ 1,018,600	\$ 1,081,053	\$ 62,453
Other	29,000	17,000	32,171	15,171
Total Operating Revenues	<u>1,047,600</u>	<u>1,035,600</u>	<u>1,113,224</u>	<u>77,624</u>
<b>Operating Expenses</b>				
Depreciation	382,157	382,157	389,022	(6,865)
Source of supply purchases	270,000	270,000	291,583	(21,583)
Administrative and general expenses	228,206	228,206	288,696	(60,490)
Transmission and distribution expenses	260,480	260,480	199,419	61,061
Payroll and other taxes	15,000	15,000	15,617	(617)
Customer accounts expenses	-	-	10,722	(10,722)
Water treatment	5,500	5,500	5,803	(303)
Bad debt expense	-	-	1,234	(1,234)
Total Operating Expenses	<u>1,161,343</u>	<u>1,161,343</u>	<u>1,202,096</u>	<u>(40,753)</u>
<b>Operating Income (Loss)</b>	<u>(113,743)</u>	<u>(125,743)</u>	<u>(88,872)</u>	<u>36,871</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	2,000	2,000	1,988	(12)
Gain (loss) on capital asset disposals	-	-	5,001	5,001
Interest on debt	(142,662)	(142,662)	(141,396)	1,266
Amortization of deferred charges related to debt	-	(3,071)	-	(3,071)
Total Nonoperating Revenue (Expenses)	<u>(140,662)</u>	<u>(143,733)</u>	<u>(134,407)</u>	<u>3,184</u>
<b>Net Income before Capital Contributions</b>	(254,405)	(269,476)	(223,279)	40,055
<b>Capital Contributions</b>	<u>10,500</u>	<u>10,500</u>	<u>11,516</u>	<u>1,016</u>
<b>Change in Net Position</b>	<u>\$ (243,905)</u>	<u>\$ (258,976)</u>	(211,763)	<u>\$ 41,071</u>
<b>Net Position-Beginning of Year</b>			<u>7,238,133</u>	
<b>Net Position-End of Year</b>			<u>\$ 7,026,370</u>	

**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  
Caldwell County Water District  
Princeton, 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 Caldwell County Water District, as of and for the year ended December 31, 2014 and the related notes to the financial statements, which collectively comprise the Caldwell County Water District's basic financial statements, and have issued our report thereon dated March 12, 2015.

*Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Caldwell County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting finding (2014-1).

*Compliance and Other Matters*

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

We also noted certain additional matters that we have reported to management of the Caldwell County Water District in a separate letter dated March 12, 2015.

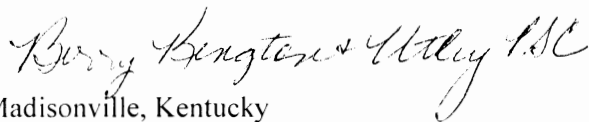
*Caldwell County Water District's Response to Findings*

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

*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of management, Commissioners, others within the entity, and federal awarding agencies and pass-through activities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Madisonville, Kentucky  
March 12, 2015

**Caldwell County Water District**  
**Schedule of Findings and Responses**  
**For The Year Ended December 31, 2014**

**2014-1 Segregation of Duties**

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We concur with the finding.