

PUBLIC SERVICE COMMISSION  
ANNUAL REPORT BRANCH

MAY 26 2015

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**CORINTH WATER DISTRICT**  
**FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2014 and 2013**

# CORINTH WATER DISTRICT

## FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

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**CORINTH WATER DISTRICT**

**BOARD OF COMMISSIONERS**

**December 31, 2014 and 2013**

**Chairman**

Dan Field

**Treasurer**

Donnie Dyer

**Secretary**

Bob McDaniel

**Legal Counsel**

Pete Whaley, Attorney at Law



## **Independent Auditor's Report**

**To the Board of Commissioners  
Corinth Water District**

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

We have audited the accompanying financial statements of the business-type activities of the Corinth Water District (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.

#### ***-Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***-Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Corinth Water District as of December 31, 2014 and 2013 and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

***-Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–9 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 our report dated March 6, 2015 on our consideration of the Corinth 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 the Corinth Water District's internal control over financial reporting and compliance.



Van Gorder, Walker & Co., Inc.  
Erlanger, Kentucky  
March 6, 2015

**CORINTH WATER DISTRICT  
P.O. BOX 218  
CORINTH, KY 41010**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2014. The information is presented in conjunction with the audited financial statements that follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the most recent year by \$1,734,172 (net position). Net position decreased by \$77,110 from the prior year.
- At the end of the current year, unrestricted net position was \$65,822, which is a decrease of \$12,931 from the prior year.

**USING THIS ANNUAL REPORT**

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statement No. 34. The financial statements include a statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, and footnotes to the financial statements. These statements show the condition of the District's finances and the sources of income and the funds expended.

**Basis of Accounting**

The District's financial statements are prepared using the accrual basis of accounting.

**The Statements of Net Position and Revenues, Expenses, and Changes in Net Position**

In the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of certain services the District provides.

## SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2014 and 2013.

**Table 1  
Net Position**

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 109,913	\$ 110,750
Restricted Assets	86,614	117,197
Restricted Assets	<u>3,896,537</u>	<u>3,979,967</u>
 Total Assets	 <u>4,093,064</u>	 <u>4,207,914</u>
 Current Liabilities	 54,891	 42,797
Liabilities Payable from Restricted Assets	89,101	128,135
Long-Term Liabilities	<u>2,214,900</u>	<u>2,225,700</u>
 Total Liabilities	 <u>2,358,892</u>	 <u>2,396,632</u>
 Net Position:		
Invested in Capital Assets, Net of Related Debt	1,630,237	1,664,667
Restricted	38,113	67,862
Unrestricted	<u>65,822</u>	<u>78,753</u>
 Total Net Position	 <u>\$ 1,734,172</u>	 <u>\$ 1,811,282</u>

The District's net position for 2014 decreased 4.26%, or \$77,110, as compared to a 3.57% or \$67,120 decrease in the previous year. The 2014 decrease is more than the prior decrease due to increased operating expenses for 2014 and no loss on disposal of District assets for the year.

The largest portion of the District's net position (94%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is 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 the debt.

An additional portion of the District's net position (2%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted portion of net position may be used to meet the District's ongoing obligations to customers and creditors.

### **SUMMARY OF CHANGES IN NET POSITION**

#### Revenues

Operating income for 2014 was \$17,401, compared to an operating income of \$25,565 in the prior year. Operating revenues increased \$11,839, or 1.7%, and operating expenses increased \$20,003, or 3.0%. Operating expenses increased due to increases in contractual services utilized and water purchased.

#### Investment Income

Investment income decreased \$13 from 2013 to 2014. The decrease is due to continued drops in investment earnings seen all throughout the region.

#### Capital Contributions

Capital contributions increased \$4,993 from 2013 to 2014.



The following schedule compares the revenues and expenses for the current year and the previous year.

**Table 2  
Changes in Net Position**

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Water Revenue	\$ 668,511	\$ 657,508
Forfeited Discounts	34,405	33,199
Miscellaneous Service Revenues	<u>4,501</u>	<u>4,871</u>
Total Operating Revenues	707,417	695,578
Total Operating Expenses	<u>690,016</u>	<u>670,013</u>
Net Operating Income	<u>17,401</u>	<u>25,565</u>
Non-Operating Income (Expense):		
Interest Income	31	44
Interest Expense	<u>(105,486)</u>	<u>(98,680)</u>
Net Non-Operating Expense	<u>(105,455)</u>	<u>(98,636)</u>
Net Loss	(88,054)	(73,071)
Capital Contributions	<u>10,944</u>	<u>5,951</u>
Change in Net Position	(77,110)	(67,120)
Net Position, January 1	<u>1,811,282</u>	<u>1,878,402</u>
Net Position, December 31	<u><u>\$ 1,734,172</u></u>	<u><u>\$ 1,811,282</u></u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2014, the District had \$3,896,537 invested in capital assets including land, water lines, vehicles, and equipment, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$83,430 from the prior year.

Table 3 summarizes the District's capital assets at the end of 2014 as compared to 2013.

**Table 3  
Capital Assets at Year End**

	<u>2014</u>	<u>2013</u>
Land	\$ 21,200	\$ 21,200
Buildings and Improvements	105,885	96,021
Lines and Equipment	6,343,807	6,277,018
Office Furniture and Fixtures	24,862	23,392
Transportation Equipment	55,600	55,600
Subtotal	6,551,354	6,473,231
Accumulated Depreciation	(2,654,817)	(2,493,264)
Total Capital Assets	<u>\$ 3,896,537</u>	<u>\$ 3,979,967</u>

The District currently has no construction in progress.

**Debt Outstanding**

Table 4 illustrates the District's outstanding debt at the end of 2014 compared to 2013.

**Table 4  
Outstanding Debt at Year End**

	<u>2014</u>	<u>2013</u>
Bonds Payable	<u>\$ 2,234,800</u>	<u>\$ 2,273,000</u>
Capital Lease Obligation - City of Corinth	<u>\$ 31,500</u>	<u>\$ 42,300</u>

At year-end, the District had \$2,234,800 in outstanding bonds compared to \$2,273,000 last year. This is a decrease of \$38,200, which represents repayment on the bond debt.

Additionally, the District entered into a capital lease agreement with the City of Corinth, Kentucky, a related party, for the purchase of land and a building, which is to be leased back by the City. Outstanding balance on this lease obligation is \$31,500 at December 31, 2014.

#### **OTHER INFORMATION**

The District uses the accounting firm of Morris & Bressler to oversee its daily accounting operations. The District uses Van Gorder, Walker & Company for its yearly audit.

The District has a month to month accrual of monies expended to maintain the operations of the District. The reports of income & expenses are discussed at each monthly meeting of the District's Board.

#### **FINANCIAL CONTACT**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's administrative office at Thomas Lane, Corinth, Kentucky 41018.

William H. Hill, Manager  
Corinth Water District

**CORINTH WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 18,325	\$ 15,475
Accounts receivable - customers, net of allowance	70,667	67,945
Inventories	17,083	23,474
Prepaid insurance	3,838	3,856
Total Current Assets	<u>109,913</u>	<u>110,750</u>
Restricted Assets		
Reserve funds	22,179	19,768
Sinking funds	64,435	97,429
Total Restricted Assets	<u>86,614</u>	<u>117,197</u>
Capital Assets		
Land	21,200	21,200
Buildings and improvements	105,885	96,021
Lines and equipment	6,343,807	6,277,018
Office furniture and fixtures	24,862	23,392
Transportation equipment	55,600	55,600
Total utility plant in service	6,551,354	6,473,231
Less accumulated depreciation	(2,654,817)	(2,493,264)
Total Capital Assets, net of depreciation	<u>3,896,537</u>	<u>3,979,967</u>
<b>TOTAL ASSETS</b>	<u>4,093,064</u>	<u>4,207,914</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable - general	27,580	15,417
Customer deposits	5,000	5,000
Current portion of capital lease obligation - related party	10,800	10,800
Withheld and accrued liabilities	11,511	11,580
Total Current Liabilities	<u>54,891</u>	<u>42,797</u>
Current Liabilities Payable from Restricted Assets		
Bonds payable	40,600	78,800
Accrued interest on bonds	48,501	49,335
Total Current Liabilities Payable from Restriced Assets	<u>89,101</u>	<u>128,135</u>
Long-Term Liabilities		
Capital lease obligation - related party	20,700	31,500
Bonds payable - USDA - Water Revenue Bonds	2,194,200	2,194,200
Total Long-Term Liabilities	<u>2,214,900</u>	<u>2,225,700</u>
<b>TOTAL LIABILITIES</b>	<u>2,358,892</u>	<u>2,396,632</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	1,630,237	1,664,667
Restricted	38,113	67,862
Unrestricted	65,822	78,753
<b>TOTAL NET POSITION</b>	<u>\$ 1,734,172</u>	<u>\$ 1,811,282</u>

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

<b>CORINTH WATER DISTRICT</b> <b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b> <b>For the Years Ended December 31, 2014 and 2013</b>
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	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Water revenue	\$ 668,511	\$ 657,508
Forfeited discounts	34,405	33,199
Miscellaneous service revenues	4,501	4,871
<b>TOTAL OPERATING REVENUES</b>	<u>707,417</u>	<u>695,578</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages - employees	144,963	147,817
Salaries and wages - officer and directors	12,669	12,669
Employee benefits	26,356	24,618
Retirement benefits	25,812	26,374
Payroll taxes	11,653	11,728
Advertising	202	156
Bad debt expenses	4,398	4,435
Contractual services	51,271	45,984
Depreciation expenses	161,553	159,804
Education/training	2,237	2,478
Insurance expenses	11,187	10,999
Materials and supplies	16,918	21,478
Miscellaneous expenses	2,020	1,512
Purchased power	3,549	3,295
Purchased water	198,186	175,040
Taxes other than income taxes	1,358	1,289
Transportation expenses	15,684	20,337
<b>TOTAL OPERATING EXPENSES</b>	<u>690,016</u>	<u>670,013</u>
<b>OPERATING INCOME</b>	<u>17,401</u>	<u>25,565</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest income	31	44
Interest expense	(105,486)	(98,680)
<b>NET NON-OPERATING EXPENSE</b>	<u>(105,455)</u>	<u>(98,636)</u>
<b>NET LOSS</b>	(88,054)	(73,071)
<b>CAPITAL CONTRIBUTIONS</b>	10,944	5,951
<b>CHANGE IN NET POSITION</b>	(77,110)	(67,120)
<b>NET POSITION, JANUARY 1</b>	<u>1,811,282</u>	<u>1,878,402</u>
<b>NET POSITION, DECEMBER 31</b>	<u>\$ 1,734,172</u>	<u>\$ 1,811,282</u>

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

**CORINTH WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 704,695	\$ 695,003
Paid to suppliers for goods and services	(288,438)	(298,775)
Paid to or on behalf of employees for services	(221,522)	(223,076)
	<u>194,735</u>	<u>173,152</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	31	44
Expenditures for construction and equipment	(78,123)	(75,691)
Decrease (Increase) in restricted cash	30,583	(59,013)
Contributions in aid of construction	10,944	5,951
	<u>(36,565)</u>	<u>(128,709)</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest on long-term debt	(106,320)	(49,391)
Payments on long-term debt	(49,000)	(10,800)
	<u>(155,320)</u>	<u>(60,191)</u>
<b>NET CASH USED IN CAPITAL AND FINANCING ACTIVITIES</b>		
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,850	(15,748)
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR</b>	<u>15,475</u>	<u>31,223</u>
<b>CASH AND CASH EQUIVALENTS-END OF YEAR</b>	<u>\$ 18,325</u>	<u>\$ 15,475</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 17,401	\$ 25,565
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	161,553	159,804
Change in operating assets and liabilities		
Decrease (increase) in receivables	(2,722)	(575)
Decrease (increase) in inventories	6,391	(12,259)
Decrease (increase) in prepaid assets	18	588
Increase (decrease) in accounts payable	12,163	419
Increase (decrease) in withheld and accrued liabilities	(69)	130
Increase (decrease) in customer deposits	-	(520)
	<u>\$ 194,735</u>	<u>\$ 173,152</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	<u>\$ (106,320)</u>	<u>\$ (49,391)</u>

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

**CORINTH WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES**

Corinth Water District (District) is a water utility, which provides service to residential and commercial customers in Grant, Pendleton, and Harrison Counties in Kentucky. The District was created by the Grant County Court on January 11, 1965 under the provisions of chapter 74 of the Kentucky Revised Statutes ("KRS").

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Basis of Accounting

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) Opinions of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District has adopted GASB Statements 66 through 70, and related interpretations issued through December 31, 2014.

**Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees** – This statement is not currently applicable to Corinth Water District.

**Statement No. 69 – Government Combinations and Disposals of Government Operations** – This statement is not currently applicable to Corinth Water District.

**Statement No. 68 – Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27** – Requires Corinth Water District to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on Corinth Water District's Balance Sheet. This statement will be in effect for fiscal periods beginning after June 15, 2014.

**Statement No. 67 – Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25** – This statement is not currently applicable to Corinth Water District.

**Statement No. 66 – Technical Corrections – 2012; an amendment of GASB Statements no. 10 and 62** – This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 and No. 62.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**CORINTH WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) is segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

Allowance for Bad Debts

The District uses the allowance method to account for bad debts. The balances of the allowance for bad debts were \$4,300 and \$4,000 at December 31, 2014 and 2013, respectively.

Cash Equivalents

For purposes of the balance sheets and statement of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statutes 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government's website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year end.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Income Tax Status

The District is exempt from federal and state income taxes since it is a political subdivision of the Grant County Court. Accordingly, the financial statements include no provision for income taxes.

Purchased Water Costs

The District is dependent on the City of Williamstown as its sole supplier of water. On September 1, 2004, the District signed an agreement with the City of Williamstown to extend this water service agreement for the next 42 years.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.



**CORINTH WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2014 and 2013**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the Statement of Net Position as "Cash and Cash Equivalents" and "Restricted Assets". The bank balances for "Cash and Cash, Equivalents" were \$18,325 and \$15,475 at December 31, 2014 and 2013, respectively; which were the same as the carrying amount. The bank balances for "Restricted Assets" were \$86,614 and \$117,197 at December 31, 2014 and 2013, respectively; which were the same as the carrying amount.

The District's investment policy allows investments only in the form of savings accounts and certificates of deposit at local banks in Grant County, Kentucky. The District holds funds at Forcht Bank. The FDIC insures bank deposits for amounts under \$250,000 per banking institution. Thus, all of the \$104,939 in District funds is insured. In accordance with GASB 40, there is no market risk on these savings account investments.

**NOTE 3 – RESTRICTED ASSETS**

Included in restricted portion of net position at December 31,

	<u>2014</u>	<u>2013</u>
Reserve fund	\$ 22,179	\$ 19,768
Sinking fund	64,435	97,429
Accrued interest on bonds	<u>(48,501)</u>	<u>(49,335)</u>
Total Restricted Assets	<u>\$ 38,113</u>	<u>\$ 67,862</u>

**NOTE 4 – UTILITY PLANT IN SERVICE**

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

**CORINTH WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

Asset Type	Balance at December 31, 2013	Additions	Retirements	Balance at December 31, 2014
Land	\$ 21,200	\$ -	\$ -	\$ 21,200
Buildings and improvements	96,021	9,864	-	105,885
Distribution reservoirs and pipes	409,285	-	-	409,285
Furniture and fixtures	23,392	1,470	-	24,862
Hydrants	121,890	924	-	122,814
Meter system and installation	852,528	57,247	-	909,775
Supply mains	13,191	-	-	13,191
Tools and equipment	12,022	-	-	12,022
Transmission mains	4,868,102	8,618	-	4,876,720
Transportation equipment	55,600	-	-	55,600
Subtotal	6,473,231	78,123	-	6,551,354
Accumulated depreciation	(2,493,264)	(161,553)	-	(2,654,817)
Capital assets, net	<u>\$ 3,979,967</u>	<u>\$ (83,430)</u>	<u>\$ -</u>	<u>\$ 3,896,537</u>

**NOTE 5 – CAPITAL CONTRIBUTIONS**

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. During 2014 and 2013 these contributions consisted of the following:

Source	2014	2013
Tap in fees and construction costs paid by new customers	\$ 10,944	\$ 5,951
Total capital contributions received in aid of construction	<u>\$ 10,944</u>	<u>\$ 5,951</u>

**NOTE 6 – WATER REVENUE BONDS; SERIES 1998**

On November 5, 1998, the District issued a water revenue bond in the amount of \$526,000. The interest rate is 4.75% per year. Interest is payable semi-annually on the first day of January and July of each year. Collateral includes water lines, meters and pumping equipment of the District. The first payments were due January 1, 2001 and mature through 2038.

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The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	4.75%	\$ 10,000	\$ 20,425	\$ 30,425
2016	4.75%	10,000	19,950	29,950
2017	4.75%	11,000	19,475	30,475
2018	4.75%	11,000	18,953	29,953
2019	4.75%	12,000	18,430	30,430
2020-2024	4.75%	68,000	83,174	151,174
2025-2029	4.75%	87,000	65,265	152,265
2030-2034	4.75%	111,000	42,511	153,511
2035-2038	4.75%	110,000	13,442	123,442
Totals		\$ 430,000	\$ 301,625	\$ 731,625

**NOTE 7 – WATER REVENUE BONDS; SERIES 2002**

On October 25, 2002, the District issued water revenue bonds in the amount of \$485,000. The interest rate is 4.625% per year. Interest is payable semi-annually on the first day of January and July of each year. Principal installments mature in 2005 through 2042. The first payments were due January 2005. Collateral includes water lines, meters and pumping equipment of the District.

The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	4.625%	\$ 7,600	\$ 19,693	\$ 27,293
2016	4.625%	7,900	19,342	27,242
2017	4.625%	8,300	18,976	27,276
2018	4.625%	8,700	18,593	27,293
2019	4.625%	9,100	18,190	27,290
2020-2024	4.625%	52,600	84,202	136,802
2025-2029	4.625%	66,300	70,833	137,133
2030-2034	4.625%	83,600	53,978	137,578
2035-2039	4.625%	105,600	32,704	138,304
2040-2042	4.625%	76,100	7,150	83,250
Totals		\$ 425,800	\$ 343,661	\$ 769,461

**NOTE 8 – WATER REVENUE BONDS; SERIES 2005**

On September 9, 2005, the District issued water revenue bonds in the amount of \$1,532,000. These bonds were issued to finance the construction of a waterline extension and to pay off the capital lease balance of \$890,000 previously held by the District. The interest rate is 4.125% per year. Interest is payable semi-annually on the first day of January and July of each year. Principal installments mature in 2007 through 2044. Collateral includes water lines, meters and pumping equipment of the District.

**CORINTH WATER DISTRICT  
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The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	4.125%	\$ 23,000	\$ 56,884	\$ 79,884
2016	4.125%	24,000	55,935	79,935
2017	4.125%	25,000	54,945	79,945
2018	4.125%	26,000	53,914	79,914
2019	4.125%	27,500	52,841	80,341
2020-2024	4.125%	156,000	246,221	402,221
2025-2029	4.125%	193,500	211,077	404,577
2030-2034	4.125%	240,000	167,476	407,476
2035-2039	4.125%	297,000	113,478	410,478
2040-2044	4.125%	367,000	46,612	413,612
Totals		<u>\$ 1,379,000</u>	<u>\$ 1,059,383</u>	<u>\$ 2,438,383</u>

**NOTE 9 – CAPITAL LEASE**

In November 2012, the District entered into a capital lease agreement with the City of Corinth, Kentucky, a related party, for the purchase of land and a building, which is being leased back by the City. The leased property of \$69,000 is included in land and buildings and improvements on the fixed asset summary in Note 5. Amortization of the lease is included in depreciation expense. For both years ending December 31, 2014 and 2013, the accumulated amortization amounted to \$1,375. The leased property represents security on this lease, and no interest is being charged.

The future minimum lease payments are as follows:

Year	Principal Amount	Interest Amount	Total Lease Payment
2015	\$ 10,800	\$ -	\$ 10,800
2016	10,800	-	10,800
2017	9,900	-	9,900
Totals	<u>\$ 31,500</u>	<u>\$ -</u>	<u>\$ 31,500</u>

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEM**

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System (CERS) of Kentucky. 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 county and school board, and

**CORINTH WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2014 and 2013**

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 adjustments (COLA) are provided at the discretion of the state legislature.

Non-hazardous Contributions - For the years ended December 31, 2014 and 2013, plan members were required to contribute 5% of their annual creditable compensation. Employees hired after August 31, 2008 and not already in the retirement system must contribute an extra 1%. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement System on the basis of an annual valuation preceding July 1 of a new biennium. The Board of Trustees of the Kentucky Retirement System 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. From January 2014 until June 2014, the employer contribution rates were 18.89% of each employee's creditable compensation. From July 2014 until December 2014, the employer contribution rates were 17.67%. From January 2013 until June 2013, the employer contribution rates were 19.55%. From July 2013 until December 2013, the employer contribution rates were 18.89%. The actuarially determined rates set by the Board of Trustees of the Kentucky Retirement System for the years ended June 30, 2015, 2014, and 2013 were 17.67%, 18.89%, and 19.55%, respectively, of creditable compensation. Administrative costs of the KRS are financed through employer contributions and investment earnings.

The required contribution and the actual percentage contributed for the district for the current and prior four years is as follows:

<u>Year</u>	<u>Contribution</u>	<u>Contributed</u>
2014	\$ 25,812	100%
2013	26,374	100%
2012	25,332	100%
2011	23,936	100%
2010	22,089	100%

**NOTE 11 – RELATED PARTY TRANSACTIONS**

Billy Hill, the General Manager of the Water District, acts as both the General Manager of the Water District and the Mayor of the City of Corinth. The District has normal business relations with the City of Corinth. Some minor reimbursable expenses have been paid by one entity and reimbursed by/to the other.

Tara Wright is the City Clerk of the City of Corinth. She also does some work for the Water District, but because the City and the Water District exchange services and employees on an as needed basis to cover what needs done, most of her work is not paid by the District. There are few if any actual charges by the city or the District for these services.

The District paid \$0 and \$930 during 2014 and 2013, respectively, to the brother of a District commissioner for meter testing services.

**CORINTH WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

As noted in Note 9, the District entered into a capital lease agreement with the City of Corinth, Kentucky for the purchase of land and a building, which is being leased back by the City.

**NOTE 12 – RISKS/COMMITMENTS/CONTINGENCIES**

Corinth Water District depends upon the credit given to a large group of individual customers. The revenue from individuals is significantly larger than the revenue from corporations. Therefore there is considerably less cash flow risk from the failure of a single customer to pay.

**NOTE 13 – SUBSEQUENT EVENTS**

Management has evaluated events through March 6, 2015, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2014 through March 6, 2015 to disclose.

**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  
Corinth Water District**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Corinth 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 Corinth Water District's basic financial statements and have issued our report thereon dated March 6, 2015.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. During our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described below, that we consider significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### ***Lack of Segregation of Duties***

Condition: We noted that, due to the size of the District and financial considerations, the executing and recording of transactions are performed by the same person.

Criteria: The process of executing a transaction should be segregated from the process of recording the transaction.

Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account.

Recommendation: Internal controls should continue to be implemented to segregate the duties of the personnel. Controls should be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corinth Water 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 that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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



Van Gorder, Walker & Co., Inc.  
Erlanger, Kentucky  
March 6, 2015