

CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
With Independent Auditor's Report**

FOR THE YEAR ENDED DECEMBER 31, 2014

Cornman, Bryan, Watts & Elliott, CPAs, PLLC

Certified Public Accountants

CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
With Independent Auditor's Report

FOR THE YEAR ENDED DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners
Crittenden-Livingston County Water District
620 East Main Street
Salem, KY 42078

We have audited the accompanying financial statements of the Crittenden-Livingston 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 District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Crittenden-Livingston 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 3–5 and page 21 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crittenden-Livingston County Water District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Comman, Bryan, Watts & Elliott, CPAs, PLLC

Grand Rivers, KY
July 28, 2015

CRITTENDEN LIVINGSTON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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

FINANCIAL HIGHLIGHTS

The assets of the District exceeded its liabilities and deferred inflows of resources by \$8,409,827 at December 31, 2014. Of this amount \$895,335 is restricted and \$7,210,285 is invested in capital assets net of the related debt, leaving unrestricted net position of \$304,207.

The District's net position increased for the year by \$150,135.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the Crittenden Livingston Water District.

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).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement 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 liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on pages 6-7.

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 8 of this report.

Statement of cash flows – The statement of cash flows, which presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year, can be found on page 9.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 10 - 20 of this report.

Supplementary Information – Supplementary information can be found on page 21 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities and deferred inflows of resources by \$8,409,827 at December 31, 2014.

During 2014, the District's net capital assets decreased \$575,071 and total long-term debt decreased by \$772,500. These changes were accompanied by an increase in unrestricted net position of \$49,710. The District's overall financial position and results of operations for the past two years are summarized as follows, based on the information included in the financial statements.

	Business-type Activities	
	2014	2013
Assets:		
Current assets	\$ 1,117,424	\$ 471,322
Capital assets	20,022,068	20,597,139
Restricted assets	284,507	750,926
Total assets	<u>21,423,999</u>	<u>21,819,387</u>
Liabilities:		
Long-term liabilities	12,110,057	12,882,557
Other liabilities	673,856	677,138
Total liabilities	<u>12,783,913</u>	<u>13,559,695</u>
Deferred inflows of resources:		
Deferred gain on refunding	<u>230,259</u>	<u>-</u>
Net position:		
Net investment in capital assets	7,210,285	7,254,268
Restricted	895,335	750,927
Unrestricted	304,207	254,497
Total net position	<u>\$ 8,409,827</u>	<u>\$ 8,259,692</u>
Operating income	\$ 2,345,511	\$ 2,216,137
Operating expenses	1,747,527	1,694,045
Operating income	<u>597,984</u>	<u>522,092</u>
Interest revenue	774	808
Interest expense	(503,336)	(586,506)
Tap on fees	47,350	23,250
Gain (loss) on disposal of capital asset	7,363	-
Grant receipts	-	2,310
Bond issuance costs	-	(142,687)
Change in net position	<u>150,135</u>	<u>(180,733)</u>
Net position, beginning of year	8,259,692	8,440,425
Net position, end of year	<u>\$ 8,409,827</u>	<u>\$ 8,259,692</u>

A portion of the District's net position (\$7,210,285) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities.

BUDGETARY HIGHLIGHTS

The original budget and the final budget passed by the board anticipated operating revenues of \$2,266,000 and operating expenses of \$1,828,714. Actual operating revenues were over-budget \$79,511, actual operating expenses were under-budget by \$81,187. Actual non-operating revenues and expenses were under-budget \$16,117 for a total positive budget variance of \$201,665.

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2014 was \$20,022,068. During the year ended December 31, 2014, the District capitalized new meters, purchased land and upgraded installed lines.

	<u>2014</u>	<u>2013</u>
Land	\$ 66,469	\$ 60,969
Machinery	28,150,434	28,118,438
Buildings	58,828	58,828
Furniture & fixtures	44,999	44,998
Less: Accumulated depreciation	<u>(8,298,662)</u>	<u>(7,686,094)</u>
Total capital assets	<u>\$ 20,022,068</u>	<u>\$ 20,597,139</u>

LONG-TERM DEBT

The District's long-term debt at December 31, 2014 was \$12,581,524. During 2013, the District entered into a flexible term financing agreement with Kentucky Rural Water Finance Corporation. Financing details can be found in Note 5 in the Notes to the Financial Statements. A schedule of the District's long-term debt at December 31, 2014 follows:

	<u>2014</u>	<u>2013</u>
Revenue Bond Series 1995A	\$ 651,000	\$ 670,000
Revenue Bond Series 2000A	1,642,000	1,677,000
Revenue Bond Series 2008C	1,365,000	1,465,000
KIA Loan	717,952	790,810
KIA Loan - Radio-read meters	281,405	293,863
2013 Flexible Term Financing	3,485,000	3,690,000
2013 Flexible Term Financing	<u>2,070,000</u>	<u>2,090,000</u>
Total bond and notes payable	<u>10,212,357</u>	<u>10,676,673</u>
 KACO Lease	 2,369,167	 2,419,167
Total long term debt	<u>\$ 12,581,524</u>	<u>\$ 13,095,840</u>

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Crittenden Livingston 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 Ronnie Slayden, Superintendent, Crittenden Livingston Water District, 620 East Main Street, Salem, KY 42078.

Crittenden Livingston Water District
Statement of Net Position - Proprietary Fund
December 31, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 230,346
Accounts receivable	330,849
Prepaid expenses	17,887
Restricted cash	62,621
Restricted investments	<u>475,721</u>
Total current assets	<u>1,117,424</u>

Noncurrent assets:

Restricted cash	<u>284,507</u>
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Capital assets:

Land	66,469
Machinery	28,150,434
Buildings	58,828
Furniture and fixtures	44,999
Less accumulated depreciation	<u>(8,298,662)</u>
Total capital assets	<u>20,022,068</u>

Total noncurrent assets	<u>20,306,575</u>
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Total assets	<u>21,423,999</u>
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Crittenden Livingston Water District
Statement of Net Position - Proprietary Fund (continued)
December 31, 2014

Liabilities

Current liabilities:

Current maturities of long-term debt	416,883
Lease payable	54,583
Accounts payable trade	40,522
Construction payable	100
Payroll liabilities	19,026
Tenant deposits payable	10,140
Interest payable	132,602
Total current liabilities	673,856

Noncurrent liabilities:

Notes payable	912,474
Lease payable	2,314,583
Bonds payable	8,883,000
Total noncurrent liabilities	12,110,057

Total liabilities	12,783,913
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Deferred Inflows of Resources

Deferred gain on refunding	230,259
Total deferred inflows of resources	230,259

Net Position

Net investment in capital assets	7,210,285
Restricted for debt service	895,335
Unrestricted	304,207
Total net position	\$ 8,409,827

Crittenden Livingston Water District
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
Year Ended December 31, 2014

Operating Revenues	
Charges for services	\$ 2,296,918
Other income	48,593
Total operating revenue	2,345,511
Operating Expenses	
Salary expenses	600,743
Water treatment expenses	253,169
Maintenance expenses	68,053
General operating expenses	170,808
Depreciation	654,754
Total operating expenses	1,747,527
Operating income	597,984
Nonoperating Revenue (Expenses)	
Interest revenue	774
Interest expense	(503,336)
Gain (loss) on disposal of capital asset	7,363
Total nonoperating revenue (expenses)	(495,199)
Capital Contributions	
Tap-on fees	47,350
Change in net position	150,135
Net position, beginning of year	8,259,692
Net position, end of year	\$ 8,409,827

See accompanying notes and auditor's report.

Crittenden Livingston Water District
Statement of Cash Flows-Proprietary Fund
Year Ended December 31, 2014

Cash flows from operating activities:	
Cash received from customers	\$ 2,349,638
Cash payments to suppliers for goods and services	(497,917)
Cash payments to employees for services	(602,091)
	<u>1,249,630</u>
Net cash provided (used) by operating activities	
	<u>1,249,630</u>
Cash flows from capital and related financing activities:	
Tap-on fees	47,350
Acquisition and construction of property, plant and equipment	(79,954)
Proceeds from sale asset	7,635
Principal payments on long-term debt	(514,316)
Interest paid on long-term debt	(524,668)
	<u>(1,063,953)</u>
Net cash provided (used) for capital and related financing activities	
	<u>(1,063,953)</u>
Cash flows from investing activities:	
Interest on investments	774
	<u>774</u>
Net cash provided (used) by investing activities	
	<u>774</u>
Net increase (decrease) in cash and cash equivalents	
	186,451
Cash and cash equivalents, beginning of year	<u>866,744</u>
Cash and cash equivalents, end of year	<u>\$ 1,053,195</u>
Reconciliation to Statement of Net Position:	
Cash and cash equivalents - current	\$ 230,346
Restricted cash - current	62,621
Restricted cash - noncurrent	284,507
Restricted investments - current	475,721
	<u>\$ 1,053,195</u>
Reconciliation of Operating Income to Net Cash Provided by Operations:	
Operating income	\$ 597,984
Adjustments-operating activities	
Depreciation and amortization	654,754
(Increase) decrease in:	
Accounts receivable	5,748
Other receivable	(1)
Prepaid expenses	1,020
Increase (decrease) in:	
Accounts payable	(6,907)
Customer deposits	(1,620)
Accrued liabilities	(1,348)
	<u>1,249,630</u>
Net cash provided by operating activities	<u>\$ 1,249,630</u>

Crittenden Livingston Water District
Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity - The Crittenden Livingston Water 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 Salem, Kentucky and primarily serves the Crittenden and Livingston County, Kentucky area.

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 equally by the County Judge Executives of Crittenden and Livingston counties, 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 accounting - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the Government Accounting Standards Board. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Accounts receivable - The direct write-off method was used for recording un-collectible accounts. No allowance for un-collectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Crittenden and Livingston counties.

Utility plant - The utility plant is carried at cost. 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. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions 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 estimated useful lives:

Buildings – 10 to 50 years	Pumping Equipment – 5 to 10 years
Transmission Lines – 5 to 50 years	Meters – 5 to 10 years
Plant Equipment – 5 to 10 years	Office Equipment – 5 to 10 years
Vehicles – 5 years	

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Use of restricted/unrestricted net position – When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the District's policy is to consider restricted net position to have been depleted before unrestricted net position is applied.

Budget – The District adopts an annual budget prepared under the basis of accounting utilized in the financial statements.

Cash and cash equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

2 RESTRICTED CASH AND INVESTMENTS

Crittenden Livingston Water Sinking Fund - The sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds. The bond ordinances require that the amount deposited each month equals one-sixth of the next succeeding interest requirement and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2014 the balance of the Sinking Fund was \$42,536.

Depreciation Reserve - The bond ordinances require Crittenden Livingston Water District to make monthly contributions to this fund after observing the priority of deposits into the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the 1995 ordinance the District is to make \$1,872 monthly deposits until the Depreciation fund reaches \$224,640 and shall be maintained throughout the life of the bonds. The 1995 bond ordinance amends all previous ordinances. Under the 2000 ordinance the District is to make \$2,115 monthly deposits over the life of the loan in addition to the requirement of all previous ordinances. At December 31, 2014 the balance of the Depreciation Reserve Fund was \$274,367.

Crittenden Livingston Tenant Deposit Fund - This account is set aside to account for customer deposits. At December 31, 2014 the restricted balance of the Crittenden Livingston Tenant Deposit Fund was \$10,140.

Construction Funds – Occasionally, Crittenden Livingston Water District is involved in various on-going construction projects. A bank account has been established for each project referred to as "Phases". Monies deposited to the construction accounts is reserved for construction of the appropriate phase.

Regions Sinking Funds – The District maintains sinking accounts with Regions Bank for payments on the 2008 bond issuance and the 2013 flexible term financing. A monthly amount is transferred from the Rural Water Sinking Fund to meet the annual principal and interest obligations related to the previously mentioned financing. The balance held at Regions Bank for these purposes at December 31, 2014 was \$475,721.

Health Reimbursement Account – The District, in an effort to offset rising employee health insurance costs, has established a program, whereby, employees participate in a high-deductible healthcare plan with deductible amounts being paid by the District. At the beginning of each plan

Crittenden Livingston Water District
Notes to the Financial Statements

2 RESTRICTED CASH AND INVESTMENTS (continued)

year the amount of each employees deductible is set aside in a separate restricted bank account. As employees incur health care costs, amounts up to the per person deductible are reimbursed to the eligible employee from this account. Any excess left in the account at the end of the plan year is used to fund the maximum amount to be set aside for the following year. As of December 31, 2014, the balance in the Health Reimbursement Account was \$20,085.

3 DEPOSITS

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could effect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the district, includes disclosure of the following risks:

- Risks related to custodial credit risk of deposits;
- Risks related to custodial credit risk of investments;
- Interest rate risk; and
- Deposit and investment policies related to those risks.

Custodial Credit Risk is the risk that in the event of a failure of a depository institution, the district will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2014, the carrying amount of District's deposits was \$1,052,830 and the bank balance of \$1,162,737 was categorized as follows:

Insured by FDIC / SIPC	\$	500,000
Uninsured and collateralized with securities held by the pledging financial institution in the district's name		662,737
Total	\$	1,162,737

Cash deposits (cash equivalents) of \$475,721 are held by a securities firm that is a member of the Securities Investor Protection Corporation (SIPC). The SIPC protects securities customers of its members up to \$500,000, including \$250,000 for claims for cash.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The district's investments of \$475,721 are held at Regions Bank in a money market fund with a AAA rating by Standard & Poor's. The investments serve as the bond sinking fund for the 2008 and 2013 debt series. The District does not have a policy for limiting credit risk.

Crittenden Livingston Water District
Notes to the Financial Statements

3 DEPOSITS (continued)

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District does not have a formal policy limiting investment maturities that would help manage exposure to fair value losses from increasing interest rates. The District's investments at December 31, 2014 consist of Federated Treasury Obligation Fund Service Shares with a fair market value of \$475,721. The short-term investments have a weighted average maturity is 45 days. Funds are invested in the Regions Trust Cash Sweep III which carries a fair market value equal to the District's cash value of \$475,721.

The district does not have deposit and investment policies. However Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

- (a) Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
- (b) Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
- (c) Savings and loan associations insured by the U. S. government;
- (d) Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U. S. government;
- (e) Deposit accounts with banking institutions;
- (f) State treasurer investment pool.

Crittenden Livingston Water District
Notes to the Financial Statements

4 CAPITAL ASSETS

Capital asset activity for Crittenden Livingston Water District for the year ended December 31, 2014 was as follows:

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
Capital assets being depreciated:				
Lake and river intake	\$ 888,411	\$ -	\$ -	\$ 888,411
Pumping equipment	287,111	-	-	287,111
Water treatment structure	6,900	-	-	6,900
Water treatment equipment	4,402,784	-	-	4,402,784
Transportation equipment	181,116	-	41,281	139,835
Distribution reservoirs and pipe	637,711	-	-	637,711
Small equipment	16,724	-	-	16,724
Transmission and distribution mains	14,089,968	17,935	-	14,107,903
Lab equipment	6,231	-	-	6,231
Power operated equipment	65,632	-	-	65,632
Services	6,012,089	-	-	6,012,089
Meters and installation	1,177,465	56,519	1,178	1,232,806
Communication equipment	124,256	-	-	124,256
Hydrants	228,940	-	-	228,940
Office furniture and fixtures	45,000	-	-	45,000
Office building	51,928	-	-	51,928
Subtotal	28,222,266	74,454	42,459	28,254,261
Less accumulated depreciation:				
Lake and river intake	(122,315)	(17,768)	-	(140,083)
Pumping equipment	(63,715)	(17,994)	-	(81,709)
Water treatment structure	(1,208)	(690)	-	(1,898)
Water treatment equipment	(1,362,549)	(88,129)	-	(1,450,678)
Transportation equipment	(106,881)	(14,847)	(41,280)	(80,448)
Distribution reservoirs and pipe	(201,641)	(12,754)	-	(214,395)
Small equipment	(14,607)	(186)	-	(14,793)
Transmission and distribution mains	(3,800,193)	(281,875)	-	(4,082,068)
Lab equipment	(4,502)	(108)	-	(4,610)
Power operated equipment	(65,632)	-	-	(65,632)
Services	(1,398,334)	(171,551)	-	(1,569,885)
Meters and installation	(387,715)	(35,572)	(906)	(422,381)
Communication equipment	(15,627)	(6,287)	-	(21,914)
Hydrants	(73,874)	(4,793)	-	(78,667)
Office furniture and fixtures	(40,834)	(804)	-	(41,638)
Office building	(26,467)	(1,396)	-	(27,863)
Subtotal	(7,686,094)	(654,754)	(42,186)	(8,298,662)
Capital assets being depreciated, net	20,536,172	(580,300)	273	19,955,599
Capital assets not being depreciated:				
Land	60,969	5,500	-	66,469
Capital assets, net	\$ 20,597,141	\$ (574,800)	\$ 273	\$ 20,022,068

Depreciation charged to income was \$654,754 during the year ending December 31, 2014.

Crittenden Livingston Water District
Notes to the Financial Statements

5 LONG-TERM DEBT

Bonds Payable

The Crittenden Livingston Water District Waterworks Revenue Bonds of 1995 (Series A) were issued in the amount of \$884,000 to finance the cost of the Phase 5 construction project (system additions). The bond maturity dates are January 1, 1998-2035. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series A) in the amount of \$2,000,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

In May 2008 Crittenden Livingston Water District issued Waterworks Revenue Bonds of 2008 (Series C) in the amount of \$1,920,000 to current refund revenue bonds 1998, 1991, 1994 & 1996 issuances. The current refunding met the requirement of an in-substance debt defeasance and the revenue bonds were removed from the District's financial statements.

The bond maturity dates are January 1, 2009-2030. This issue was purchased by Morgan, Keegan and Company, Inc. Interest rates are shown below:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
January 1, 2009	2.350%	January 1, 2022	4.175%
January 1, 2010	2.550%	January 1, 2023	4.175%
January 1, 2011	3.050%	January 1, 2024	4.300%
January 1, 2012	3.050%	January 1, 2025	4.300%
January 1, 2013	3.300%	January 1, 2026	4.300%
January 1, 2014	3.300%	January 1, 2027	4.425%
January 1, 2015	3.550%	January 1, 2028	4.425%
January 1, 2016	3.550%	January 1, 2029	4.550%
January 1, 2017	4.050%	January 1, 2030	4.550%
January 1, 2018	4.050%		
January 1, 2019	4.050%		
January 1, 2020	4.050%		
January 1, 2021	4.050%		

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

Notes Payable

Notes payable consisted of the following at December 31, 2014:

Kentucky Infrastructure Authority (KIA) note dated November 1, 2001, at 1.8%, payable in 40 semiannual payments including principal and interest. Loan funds advanced were used on an interim basis to finance the construction of extensions, additions, and improvements to the existing waterworks system.

In August 2011, Crittenden-Livingston Water District was approved for a loan to replace all existing meters with meters utilizing radio-read technology. The total cost of the project is not to

Crittenden Livingston Water District
Notes to the Financial Statements

5 LONG-TERM DEBT (continued)

exceed \$300,000 and will be financed by the Kentucky Infrastructure Authority under a loan bearing interest at 2%.

In March 2013, the District entered into a flexible term finance program with Kentucky Rural Water to refinance the 2004 D Kentucky Rural Water Finance Corporation Bonds, with an interest rate of 3.120%-4.620%, and the 2000 B, with an interest rate of 4.75%, and 2000 C Rural Development Bonds with an interest rate of 4.5%. The total loan amount of \$5,780,000 is divided into two separate loans. The amount of \$3,690,000 is a 15 year loan with a variable interest rate of 2.30% to 4.80%. Principal repayment began in 2014 and the loan will be paid out in 2029. The remaining loan amount of \$2,090,000 is a 27 year loan with a variable interest rate of 2.30% to 4.80%. Principal repayment began in 2014 and the loan will be paid out in 2040.

The \$2,090,000 current refunding decreased the total debt service until maturity in the amount of \$439,222. This resulted in an average annual cash savings of \$15,687.

The \$3,690,000 current refunding decreased the total debt service until maturity in the amount of \$546,472. This resulted in an average annual cash savings of \$34,154.

A detail of the Crittenden Livingston Water District Waterworks long-term debt is as follows:

	Balance January 1, 2014	Proceeds	Repayments	Balance December 31, 2014	Current Amount Due
Crittenden Livingston					
Waterworks revenue bonds:					
1995 Issue (Series A)	670,000	-	19,000	651,000	-
2000 Issue (Series A)	1,677,000	-	35,000	1,642,000	-
2008 Bonds	1,465,000	-	100,000	1,365,000	105,000
2013 Flexible Term Financing	3,690,000	-	205,000	3,485,000	185,000
2013 Flexible Term Financing	2,090,000	-	20,000	2,070,000	40,000
Total bonds	<u>9,592,000</u>	<u>-</u>	<u>379,000</u>	<u>9,213,000</u>	<u>330,000</u>
Notes payable:					
KIA	790,810	-	72,858	717,952	74,175
KIA-Radio-read meters	293,863	-	12,458	281,405	12,708
Total notes payable	<u>1,084,673</u>	<u>-</u>	<u>85,316</u>	<u>999,357</u>	<u>86,883</u>
Total bonds and notes payable	<u>\$ 10,676,673</u>	<u>\$ -</u>	<u>\$ 464,316</u>	<u>\$ 10,212,357</u>	<u>\$ 416,883</u>

Crittenden Livingston Water District
Notes to the Financial Statements

5 LONG-TERM DEBT (continued)

Annual debt service requirements for notes payable to maturity are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 416,884	\$ 335,367
2016	505,480	372,334
2017	510,106	354,302
2018	523,762	334,416
2019	518,449	314,376
2020-2024	2,800,489	1,243,528
2025-2029	2,550,714	712,096
2030-2034	1,114,473	366,374
2035-2039	1,045,000	146,057
2040	227,000	2,805
	<u>\$ 10,212,357</u>	<u>\$ 4,181,655</u>

Leases

The Fiscal Court of Livingston County, Kentucky, in an Ordinance passed and adopted on August 24, 2010, authorized a plan to payoff a short term note of the Crittenden Livingston Water District in the amount of \$2,500,000 with funds provided to the County by the Kentucky Association of Counties Finance Corporation through a financing agreement between the county and KACO. The amount of \$2,560,000 carries a variable interest rate of 4.15% - 5.00% and matures on February 1, 2039.

	<u>Balance</u> <u>January 1, 2014</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance</u> <u>December 31, 2014</u>	<u>Current</u> <u>Amount Due</u>
Crittenden Livingston					
Water System	\$ 2,419,167	\$ -	\$ 50,000	\$ 2,369,167	\$ 54,583
Total	<u>\$ 2,419,167</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 2,369,167</u>	<u>\$ 54,583</u>

Annual debt service requirements for notes payable to maturity are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 54,583	\$ 118,475
2016	55,000	116,018
2017	59,583	113,544
2018	64,583	110,863
2019	65,000	107,956
2020-2024	373,750	492,888
2025-2029	472,917	397,409
2030-2034	602,500	263,328
2035-2039	621,250	86,951
	<u>\$ 2,369,166</u>	<u>\$ 1,807,432</u>

Crittenden Livingston Water District
Notes to the Financial Statements

5 LONG-TERM DEBT (continued)

Leased equipment under capital lease in capital assets at June 30, 2014, included the following:

Facilities and equipment	\$	3,455,798
Less: Accumulated depreciation		789,897
Net	\$	2,665,901

Amortization of leased facilities and equipment is included in depreciation expense.

6 RETIREMENT PLAN

County Employees' Retirement System Plan Description:

Plan Description:

The District is a participant in the 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. 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 calling (502) 564-4646.

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 18.89%, 19.55% and 18.96%, respectively, of 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 are as follows:
Crittenden-Livingston Water District:

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Annual Contribution</u>	<u>Percentage Contribution</u>
December 31, 2014	\$ 76,386	\$ 76,386	100%
December 31, 2013	\$ 74,118	\$ 74,118	100%
December 31, 2012	\$ 80,482	\$ 80,482	100%

Postretirement Healthcare Benefits:

In addition to the pension benefits described above, the Kentucky Retirement System (KRS) provides postretirement 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.

Crittenden Livingston Water District
Notes to the Financial Statements

6 RETIREMENT PLAN (continued)

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

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

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participation on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, nonhazardous employees whose participation began on, or after, July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 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 employer's 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 20 years. The increases commenced with the

1997 valuation used by the Kentucky General Assembly to establish employer contribution rates for the biennium.

7 COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

8 INTEREST EXPENSE

The District incurred interest cost in 2014 of \$503,336. The entire amount has been recognized as a current operating expense.

Crittenden Livingston Water District
Notes to the Financial Statements

9 DEFERRED RESOURCES INFLOWS

The change in deferred resources inflows for 2014 is as follows:

	Balance January 1, 2014	Additions	Amortization	Balance December 31, 2014
Deferred inflows of resources:				
Deferred gain on debt refunding	\$ 247,032		\$ 16,773	\$ 230,259
Total deferred inflows of resources	<u>\$ 247,032</u>	<u>\$ -</u>	<u>\$ 16,773</u>	<u>\$ 230,259</u>

10 SUBSEQUENT EVENTS

On July 13 2015, litigation was brought against Crittenden-Livingston County Water District. The litigation involves a water purchase contract dispute with another water district that is a customer. Currently, the other water district is contracted to purchase 3,000,000 gallons a month for 40 years from Crittenden-Livingston County Water District. Although the contract between the water districts began on January 24, 2000, the plaintiff contends the contract is void. If the water purchase contract is ultimately ruled void and if no water is purchased by this customer then Crittenden-Livingston County Water District could have a reduction of \$92,880 of current minimum annual gross revenue or \$53,640 of current minimum net operating income. The likelihood of any loss of revenue, or net operating income, concerning this water contract dispute is unknown at this time.

Crittenden Livingston Water District
Statement of Revenues, Expenses and Changes in Net Position-Proprietary Fund
Budget and Actual
For the Year Ended December 31, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 2,266,000	\$ 2,266,000	\$ 2,296,918	\$ 30,918
Other income	-	-	48,593	48,593
Total operating revenues	<u>2,266,000</u>	<u>2,266,000</u>	<u>2,345,511</u>	<u>79,511</u>
Operating expenses:				
Salary expenses	613,500	613,500	600,743	12,757
Water treatment expenses	232,500	232,500	253,169	(20,669)
Maintenance expenses	115,000	115,000	68,053	46,947
General operating expenses	171,450	171,450	170,808	642
Depreciation	652,896	652,896	654,754	(1,858)
Amortization	43,368	43,368	-	43,368
Total operating expenses	<u>1,828,714</u>	<u>1,828,714</u>	<u>1,747,527</u>	<u>81,187</u>
Operating income	<u>437,286</u>	<u>437,286</u>	<u>597,984</u>	<u>160,698</u>
Non-operating income (expenses):				
Interest revenue	1,000	1,000	774	(226)
Interest expense	(512,316)	(512,316)	(503,336)	8,980
Gain (Loss) on disposal of capital asset	-	-	7,363	7,363
Total non-operating revenue (expenses)	<u>(511,316)</u>	<u>(511,316)</u>	<u>(495,199)</u>	<u>16,117</u>
Capital contributions:				
Tap-on fees	<u>22,500</u>	<u>22,500</u>	<u>47,350</u>	<u>24,850</u>
Change in net position	<u>\$ (51,530)</u>	<u>\$ (51,530)</u>	<u>\$ 150,135</u>	<u>\$ 201,665</u>
Net position, beginning of year			<u>8,259,692</u>	
Net position, end of year			<u>\$ 8,409,827</u>	

See accompanying notes and auditor's report.

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 Members of the Board of Commissioners
Crittenden-Livingston County Water District
620 East Main Street
Salem, KY 42078

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 Crittenden-Livingston 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 Crittenden-Livingston County Water District's basic financial statements, and have issued our report thereon dated July 28, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Crittenden-Livingston 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 Crittenden-Livingston County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Crittenden-Livingston County Water District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Crittenden-Livingston County 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Cornman, Byer, Watts & Elliott, CPAs, PLLC

Grand Rivers, KY
July 28, 2015