

West Shelby Water District
Financial Statements
December 31, 2014 and 2013

West Shelby Water District

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December 31, 2014 and 2013

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Independent Auditor's Report

To the Board of Directors
West Shelby Water District

Report on the Financial Statement

We have audited the accompanying financial statements of the business-type activities of West Shelby 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the 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 District as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (Continued)

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 3 through 7 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Revenues, Expenses, and Changes in Net Position – Actual to Budget is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements, as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2015 on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Frankfort, Kentucky
March 15, 2015

**West Shelby Water District
Management's Discussion and Analysis (Unaudited)
December 31, 2014 and 2013**

As management of the West Shelby Water District ("District"), we offer the readers of the District's financial statements this narrative overview and analysis of the financial performance of the District for the year ended December 31, 2014. We encourage readers to read it in conjunction with the District's financial statements and the accompanying notes.

Financial Highlights

- Cash and cash equivalents decreased \$245,683 (13%)
- Restricted cash decreased \$341,148 (46%).
- Property, plant and equipment (net) increased \$821,513 (9%)
- Accounts payable decreased \$1,880 (13%).
- Accrued interest increased \$12,600 (100%)
- Bonds/notes payable decreased \$30,000 (3%).
- Net position increased \$536,600 (5%)
- Operating revenues increased \$172,052 (12%)
- Total expenses increased \$96,201(7%)
- Operating income increased \$75,851 (159%)
- Non-operating (net) increased \$54,818 (95%)
- Investment income increased \$10,871 (167%)

Overview of the Financial Statements

This financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the accompanying notes to the financial statements. The West Shelby Water District is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the District. These statements are presented in a manner similar to those of a private business.

The statement of net position presents information on all of 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 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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2014 and 2013**

Overview of the Financial Statements (Continued)

The statement of cash flows provides relevant information about the cash receipts and cash payments of the District during the fiscal year. The statement should help users assess the District's ability to generate future net cash flows, meet future obligations as they become due, and assess the District's need for future external financing, the reasons for differences in operating and related cash receipts and cash payments, and the effects on financial position of cash and non-cash investing, capital, non-capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 13-20.

Financial Analysis of the District

Condensed Financial Information
Statements of Net Position
as of December 31

	2014	Percentage Increase (Decrease)	2013
Current assets	\$ 2,591,783	12.0%	\$ 2,313,701
Non-current assets	10,262,521	2.6%	10,003,181
Total assets	<u>12,854,304</u>	4.4%	<u>12,316,882</u>
Current liabilities	213,339	45.9%	146,265
Non-current liabilities	1,032,270	-6.0%	1,098,522
Total liabilities	<u>1,245,609</u>	0.1%	<u>1,244,787</u>
Restricted	395,058	-46.3%	736,206
Unrestricted	11,213,637	8.5%	10,335,889
Total net position	<u>\$ 11,608,695</u>	4.8%	<u>\$ 11,072,095</u>

Current assets consist primarily of operating cash, cash equivalents, short term certificate of deposits, investment bonds and accounts receivables.

**West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2014 and 2013**

Financial Analysis of the District (Continued)

Non-current assets consist primarily of property, plant and equipment and cash balances restricted for capital construction and debt service.

Current liabilities consist primarily of accounts payable, accrued payroll liabilities and the current-portion of notes payables.

Non-current liabilities represent the non-current portion of bond and notes payables.

Condensed Financial Information
Statements of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended December 31

	2014	Percentage Increase (Decrease)	2013
Operating revenues:			
Sale of water	\$ 1,521,976	13.1%	\$ 1,345,300
Other revenues	32,625	-12.4%	37,249
Total operating revenues	<u>1,554,601</u>	12.4%	<u>1,382,549</u>
Operating expenses:			
Operating	852,309	12.8%	755,798
General and administrative	275,274	0.7%	273,374
Depreciation	303,528	-0.7%	305,738
Total operating expenses	<u>1,431,111</u>	7.2%	<u>1,334,910</u>
Income from operations	<u>123,490</u>	159.2%	<u>47,639</u>
Non-operating revenues (expenses)			
Net increase in fair value of investments	19,395	100.0%	-
Investment income	17,983	152.9%	7,112
Debt refinance expenses	-	100.0%	(8,100)
Loss on inventory valuation	-	100.0%	(2,427)
Interest expense	(41,128)	-25.4%	(55,154)
Non-operating (expenses)	<u>(3,750)</u>	-93.6%	<u>(58,569)</u>
Excess revenue (under) over expenses	119,740	1195.5%	(10,930)
Changes in equity contribution			
Member tap on	60,490	298.0%	15,200
Member construction contribution	356,370	-42.4%	619,221
Total	<u>416,860</u>	-34.3%	<u>634,421</u>
Change in net position	<u>\$ 536,600</u>	-13.9%	<u>\$ 623,491</u>

**West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2014 and 2013**

Financial Analysis of the District (Continued)

Condensed Financial Information
Statements of Revenues, Expenses and Change in Net Position (Continued)
For the Fiscal Year Ended December 31

	<u>2014</u>		<u>2013</u>
Net position, beginning of year	\$ 11,072,095	6.0%	\$ 10,448,604
Net position, end of year	<u>\$ 11,608,695</u>	4.8%	<u>\$ 11,072,095</u>

Sale of Water represents revenues from providing water to residential, commercial, industrial, governmental, and multi-family customers.

Other income represents revenues for reconnect fees, forfeited discounts (late fees), and interest earned.

Operating expenses primarily represent the purchasing of water, personnel costs for maintenance staff, utilities, and repairs and maintenance.

General and administrative expenses primarily represent personnel costs for administrative staff, employee benefits, insurance, supplies and payroll taxes.

Depreciation expenses are related to the allocation of the usefulness of property, plant and equipment over the life time.

Non-operating revenues (expenses) consist primarily of interest revenue, interest expense, and gain (loss) on sale of property, plant and equipment.

Condensed Financial Information
Statements of Cash Flows
For the Fiscal Year Ended December 31

	<u>2014</u>	Percentage Increase (Decrease)	<u>2013</u>
Net Cash provided by (used in):			
Operating activities	\$ 467,535	41.5%	\$ 330,341
Capital and related financing activities	(541,189)	377.0%	195,410
Investing activities	<u>(172,029)</u>	131.4%	<u>(74,350)</u>
Net change in cash and cash equivalents	(245,683)	154.4%	451,401
Cash and cash equivalents, beginning of year	<u>1,935,065</u>	30.4%	<u>1,483,664</u>
Cash and cash equivalents, end of year	<u>\$ 1,689,382</u>	-12.7%	<u>\$ 1,935,065</u>

**West Shelby Water District
Management's Discussion and Analysis (Unaudited) (Continued)
December 31, 2014 and 2013**

Financial Analysis of the District (Continued)

The net decrease in cash and cash equivalents totaled \$245,683 at December 31, 2014, primarily due to the additional purchases of short term certificate of deposits.

Capital Assets Administration

The following table summarizes the changes in net capital assets between fiscal years 2014 and 2013.

	<u>2014</u>	Percentage Increase (Decrease)	<u>2013</u>
Transmission and distribution plant	\$ 13,104,091	9.3%	\$ 11,987,236
General plant	732,449	1.1%	724,266
Accumulated depreciation	<u>(4,231,969)</u>	7.7%	<u>(3,928,444)</u>
	<u>\$ 9,604,571</u>	9.4%	<u>\$ 8,783,058</u>

Debt Administration

The following table summarizes the outstanding obligations under bonds payable as December 31, 2014 and 2013.

	<u>2014</u>	Percentage Increase (Decrease)	<u>2013</u>
Bonds payable	<u>\$ 1,066,000</u>	-2.7%	<u>\$ 1,096,000</u>
	<u>\$ 1,066,000</u>	-2.7%	<u>\$ 1,096,000</u>

Contacting The District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all of those with an interest. If you have any questions concerning the information provided in this report or need additional financial information, contact the West Shelby Water District, 7101 Shelbyville Road, Simpsonville, Kentucky 40067.

**West Shelby Water District
Statements of Net Position
For the Fiscal Year Ended December 31**

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,689,382	\$ 1,935,065
Certificate of deposits - current portion	718,088	187,880
Accounts receivable	92,154	93,030
Inventory - materials and supplies	76,614	82,059
Prepaid expenses and other	<u>15,545</u>	<u>15,667</u>
Total Current Assets	2,591,783	2,313,701
Non-Current Assets		
Restricted cash and cash equivalents	395,058	736,206
Certificate of deposits - long term	106,447	105,495
Long term investment bonds	156,445	137,050
Property, plant and equipment, net of accumulated depreciation	9,604,571	8,783,058
Construction in progress	<u>-</u>	<u>241,372</u>
Total Non-current Assets	<u>10,262,521</u>	<u>10,003,181</u>
Total Assets	<u><u>\$ 12,854,304</u></u>	<u><u>\$ 12,316,882</u></u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 12,973	\$ 14,853
Accrued interest	12,600	-
Customer deposits	81,528	84,425
Accrued taxes and payroll liabilities	43,238	16,987
Bonds payable, current portion	<u>63,000</u>	<u>30,000</u>
Total Current Liabilities	213,339	146,265
Non-Current Liabilities		
Bonds payable, long-term portion	1,003,000	1,066,000
Premium on bonds payable	<u>29,270</u>	<u>32,522</u>
Total Non-Current Liabilities	<u>1,032,270</u>	<u>1,098,522</u>
Total Liabilities	<u>1,245,609</u>	<u>1,244,787</u>
Net Position		
Restricted for capital construction and debt payments	395,058	736,206
Unrestricted net position	<u>11,213,637</u>	<u>10,335,889</u>
Total Net Position	<u>11,608,695</u>	<u>11,072,095</u>
Total Liabilities and Net Position	<u><u>\$ 12,854,304</u></u>	<u><u>\$ 12,316,882</u></u>

See accompanying notes.

West Shelby Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended December 31

	<u>2014</u>	<u>2013</u>
Revenue from Sale of Water		
Residential customers	\$ 684,133	\$ 670,518
Industrial customers	364,979	351,205
Commercial customers	302,609	169,085
Public authorities	63,315	57,370
Private fire protection	61,390	51,609
Multi-family dwellings	45,550	45,513
Total Revenue from Sale of Water	<u>1,521,976</u>	<u>1,345,300</u>
Other Revenue		
Forfeited discounts	18,950	17,768
Miscellaneous revenue	13,675	19,481
Total Other Revenues	<u>32,625</u>	<u>37,249</u>
Total Revenues	1,554,601	1,382,549
Operating expenses		
Water purchased	629,663	537,446
Salaries	168,927	172,311
Maintenance materials and supplies	29,715	23,657
Power-pumping equipment	13,524	13,783
Operating supplies and expenses	10,480	8,601
Total Operating Expenses	<u>852,309</u>	<u>755,798</u>
Administrative and General		
Salaries	47,107	44,575
Employee retirement	36,339	39,531
Employee insurance	28,598	23,356
Insurance	28,105	34,986
Office supplies	21,086	14,667
Legal and accounting	20,053	22,691
Truck and equipment expenses	17,809	19,176
Commissioners fees	17,200	18,000
Utilities	15,504	13,644
Payroll taxes	14,872	14,692
Computer/copier support	11,424	14,828
Miscellaneous	6,207	4,961
Employee uniforms	4,133	2,576
Employee training	2,984	2,218
Rent	2,275	2,269
Uncollectible revenue	875	708
Travel	453	146
Interest on customer deposits	250	350
Total Administrative and General	<u>275,274</u>	<u>273,374</u>

See accompanying notes.

West Shelby Water District
Statements of Revenues, Expenses and Changes in Net Position (Continued)
For the Fiscal Year Ended December 31

	<u>2014</u>	<u>2013</u>
Other Operating Deductions		
Depreciation	\$ 303,528	\$ 305,738
Total Other Operating Deductions	<u>303,528</u>	<u>305,738</u>
Total Expenses	<u>1,431,111</u>	<u>1,334,910</u>
 Total Operating Income	 123,490	 47,639
 Non-operating Revenues (Expenses)		
Net increase in fair value of investments	19,395	-
Investment income	17,983	7,112
Debt refinance expenses	-	(8,100)
Loss on inventory valuation	-	(2,427)
Interest on long-term debt	<u>(41,128)</u>	<u>(55,154)</u>
Total Non-operating Revenues (Expenses)	<u>(3,750)</u>	<u>(58,569)</u>
 Excess Revenue Over(Under) Expenses	 119,740	 (10,930)
 Changes in Equity Contribution		
Member tap on	60,490	15,200
Member construction contribution	<u>356,370</u>	<u>619,221</u>
Total Changes in Equity Contribution	<u>416,860</u>	<u>634,421</u>
 Change in Net Position	 <u>536,600</u>	 <u>623,491</u>
 Total Net Position, Beginning of Year	 <u>11,072,095</u>	 <u>10,448,604</u>
 Total Net Position, End of Year	 <u>\$ 11,608,695</u>	 <u>\$ 11,072,095</u>

See accompanying notes.

West Shelby Water District
Statements of Cash Flows
For the Fiscal Year Ended December 31

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,552,580	\$ 1,387,183
Cash payments to suppliers for goods and services	(783,330)	(757,583)
Cash payments for employee salaries and benefits	(301,715)	(299,259)
	<u>467,535</u>	<u>330,341</u>
Net Cash Provided by Operating Activities	467,535	330,341
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(883,669)	(287,240)
Loss on inventory	-	(2,427)
Gain on sale of assets	-	4,376
Principal payments on bonds and notes payable	(30,000)	(91,000)
Member construction contributions	356,370	619,221
Member tap fees	60,490	15,200
Bond refinance extra proceeds deposited in sinking fund	-	(4,314)
Interest payments on long-term debt	(44,380)	(58,406)
	<u>(541,189)</u>	<u>195,410</u>
Net Cash (Used in) Provided by Capital & Related Financing Activities	(541,189)	195,410
Cash Flows from Investing Activities		
Interest received	17,983	18,664
(Increase)/decrease in short term certificate of deposits	(530,208)	188,355
Decrease in long term certificate of deposits and bonds	(952)	165,694
Purchase of long term investment bonds	-	(50,076)
Increase in restricted cash and cash equivalents	341,148	(396,987)
	<u>(172,029)</u>	<u>(74,350)</u>
Net Cash Used in Investing Activities	(172,029)	(74,350)
Net (Decrease)Increase in Cash & Cash Equivalents	(245,683)	451,401
Cash and Cash Equivalents, Beginning of Year	<u>1,935,065</u>	<u>1,483,664</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,689,382</u>	<u>\$ 1,935,065</u>

See accompanying notes.

West Shelby Water District
Statements of Cash Flows (Continued)
For the Fiscal Year Ended December 31

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 123,490	\$ 47,639
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	303,528	305,738
Accounts receivable	876	2,876
Inventories	5,445	(11,188)
Prepaid expenses and other	122	4,510
Accounts payable	(1,880)	(2,138)
Accrued interest	12,600	(22,214)
Accrued taxes and payroll liabilities	26,251	3,360
Customer deposits	(2,897)	1,758
	<u>\$ 467,535</u>	<u>\$ 330,341</u>
Schedule of Non-cash Financing Activity		
Amortization of bond premium	<u>\$ 3,252</u>	<u>\$ 3,352</u>
Net increase in the fair value of investments	<u>\$ 19,395</u>	<u>\$ -</u>

See accompanying notes.

**West Shelby Water District
Notes to Financial Statements
December 31, 2014 and 2013**

Note A - Nature of Organization and Operations

The District was established by order of the Shelby County Fiscal Court on March 10, 1964. The District was established to develop and operate a complete water supply and distribution system, which services parts of Shelby County.

Note B - Summary of Significant Accounting Policies

1. Basis of Presentation: The accompanying financial statements have been prepared as an enterprise fund. Enterprise funds are designed to accumulate the total cost of providing a particular service and to indicate the extent user charges are sufficient to cover these costs. Customer meters are read and billed monthly at which time the receivable is recorded and revenue is recognized. No provision has been made for doubtful accounts due to the amount determined to be uncollectible. The West Shelby Water District (District) uses the accrual basis of accounting for financial accounting and reporting purposes.
2. Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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.
3. Statement of Cash Flows: For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash paid for interest was \$44,380 and \$58,406 for the years ended December 31, 2014 and 2013, respectively.
4. Inventory: Inventories are stated at the lower of cost or market based on first-in first-out method. During the year ended December 31, 2014 and 2013, inventory was written down \$0 and \$2,427, respectively to adjust for the end of the year physical inventory count.
5. Property, Plant and Equipment: Property, plant and equipment are capitalized and recorded at cost. The District does not have a formal capitalization policy. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following is a summary of the estimated useful lives used in computing depreciation:

Buildings and improvements	5-50 years
Machinery, equipment and leasehold improvements	5-25 years
Furniture and fixtures	5-25 years

Depreciation expense for the years ended December 31, 2014 and 2013 was \$303,528 and \$305,738, respectively.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2014 and 2013

Note B - Summary of Significant Accounting Policies (Continued)

6. Customer Deposits: Interest is accrued at a rate no greater than the District receives on cash investments and at no time greater than 6% annually.
7. New Customers: New service connection fees and construction contributions are recorded as an addition to equity. The cost of installation of the new service is recorded as an addition to plant assets and is subject to depreciation.
8. Accumulated vacation and sick leave: On January 13, 1995, the Commissioners adopted a formal policy relating to vacation and sick leave. Vacation is earned at rates varying from one to ten days per year depending on the length of service. Sick leave accrues at the rate of 1/2 day for every month employed or six days per year and shall accumulate to a maximum of 20 days. No accrual is necessary as a limited number of personnel are employed, and the amount of the accrual would be immaterial.
9. Retirement System: All full time employees on a regular basis are provided retirement through the County Employees Retirement System.
10. Subsequent Events: Subsequent events for the District have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

Note C - Concentration of Credit Risk

At December 31, 2014 and 2013 the carrying amount of the District's cash and cash investments were \$2,908,975 and \$2,964,646 respectively. All cash investments and bank balances were collateralized by federal depository insurance up to \$250,000 and other securities pledged by the financial institutions.

Note D - Investments

The District reports investments utilizing a fair value hierarchy that prioritizes the inputs (from the most objective to the most subjective) to the valuation techniques used to measure fair value into the three broad levels described as follows:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2014 and 2013

Note D – Investments (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
December 31, 2014				
Certificate of Deposits	\$ 824,535	\$ -	\$ -	\$ 824,535
Bonds	<u>156,445</u>	<u>-</u>	<u>-</u>	<u>156,445</u>
	<u>\$ 980,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 980,980</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
December 31, 2013				
Certificate of Deposits	\$ 293,375	\$ -	\$ -	\$ 293,375
Bonds	<u>137,050</u>	<u>-</u>	<u>-</u>	<u>137,050</u>
	<u>\$ 430,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 430,425</u>

Investments securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the values of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position and statement of activities. During the year ended December 31, 2014, the bonds had an unrealized gain of \$19,395. This unrealized gain was recorded as a net increase in the fair values of investments on the Statement of Revenues, Expenses and Change in Net Position.

Note E - Restricted Cash and Cash Equivalents

	<u>2014</u>	<u>2013</u>
Depreciation fund	\$ 206,011	\$ 200,628
Sinking fund	151,225	69,046
Horizon Group rebate fund	28,434	-
Construction fund	<u>9,388</u>	<u>466,532</u>
	<u>\$ 395,058</u>	<u>\$ 736,206</u>

Restricted cash and cash equivalents include the construction fund account, Horizon Group rebate fund and two debt service reserve funds (Depreciation and Sinking).

The construction fund is being used for current and future construction projects. Customer contributions and unexpended bond proceeds are carried in this fund. The depreciation and sinking funds are debt reserve funds for the notes and bond payable. The Horizon Group rebate fund is being used to reimbursement the Horizon Group as more business tap-on to the water maters that the Group purchased during the construction of the outlet mall.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2014 and 2013

Note F - Property, Plant and Equipment

Property, plant and equipment consist of the following components:

	Balance 2013	Transfer from CIP	Additions	Balance 2014
Business-Type Activities				
Transmission and Distribution Plant				
Land and land right	\$ 127,248	\$ -	\$ -	\$ 127,248
Pumping equipment	446,441	241,372	813,611	1,501,424
Water treatment equipment	7,548		-	7,548
Standpipes	2,224,206		-	2,224,206
Transmission and distribution mains	7,972,541		-	7,972,541
Services and meters	836,630		61,816	898,446
Hydrants	352,732		59	352,791
Other plant equipment	19,887		-	19,887
Total	11,987,233	241,372	875,486	13,104,091
Less: Accumulated Depreciation	(3,555,986)		(271,812)	(3,827,798)
Total Transmission and Distribution Plant	8,431,247	241,372	603,674	9,276,293
General Plant				
Office furniture and equipment	101,528	-	1,416	102,944
Buildings	373,036	-	-	373,036
Transportation equipment	170,610	-	-	170,610
Tools, shop and garage equipment	72,476	-	6,767	79,243
Laboratory equipment	373	-	-	373
Communication equipment	6,243	-	-	6,243
Total	724,266	-	8,183	732,449
Less: Accumulated Depreciation	(372,455)	-	(31,716)	(404,171)
Total General Plant	351,811	-	(23,533)	328,278
Capital Assets, net	\$ 8,783,058	\$ 241,372	\$ 580,141	\$ 9,604,571

**West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2014 and 2013**

Note G – Retirement Plan

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The District’s contribution rate for nonhazardous employees was 19.55 percent from January 3, 2013– June 30, 2013; 18.89 percent from July 1, 2013 – June 30, 2014; and 17.67 percent from July 1, 2014 – December 31, 2014. The District’s contribution for the years ended June 30, 2014 and 2013 were \$36,339 and \$39,531, respectively.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post-retirement health care coverage as follows:

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

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 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 ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS’ progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems’ annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2014 and 2013

Note H - Bonds Payable – Rural Economic & Community Development

The bond payable is the amount due Rural Economic & Community Development for long term financing as follows at December 31, 2014:

Bonds dated October 18, 1978 for		
\$300,000 with interest at 5%	\$	58,000
Bonds dated January 11, 2001 for		
\$835,000 with interest at 5%.		<u>698,000</u>
 Total Bonds Outstanding	 \$	 <u><u>756,000</u></u>

The balance at December 31, 2013 was \$819,000. The payments for 2014 that were due on January 1, 2014 were paid prior to December 31. During 2014, \$0 of principal payments were made, which leaves an outstanding balance of \$756,000 at December 31, 2014. Future maturities of bonds are as follows:

	<u>Principal</u> <u>1978 Issue</u>	<u>Interest</u> <u>1978 Issue</u>	<u>Principal</u> <u>2001 Issue</u>	<u>Interest</u> <u>2001 Issue</u>	<u>Total</u>
2015	\$ 18,000	\$ 2,000	\$ 15,000	\$ 34,900	\$ 69,900
2016	20,000	750	15,000	34,150	69,900
2017	20,000	250	16,000	33,400	69,650
2018	-	-	17,000	32,600	49,600
2019	-	-	18,000	31,750	49,750
2020-2024	-	-	103,000	144,450	247,450
2025-2029	-	-	132,000	115,950	247,950
2030-2034	-	-	167,000	79,650	246,650
2035-2039	-	-	215,000	33,250	248,250
	<u>\$ 58,000</u>	<u>\$ 3,000</u>	<u>\$ 698,000</u>	<u>\$ 540,100</u>	<u>\$ 1,299,100</u>

All properties and assets, both real and personnel, and revenues are pledged to secure these loans.

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2014 and 2013

Note I – Bonds Payable – Kentucky Rural Water Financing Corporation

On July 15, 2013, the Kentucky Rural Water Financing Corporation loan noted was refinanced. The Kentucky Rural Water Financing Corporation Flexible Term Series 2013B bonds will have variable interest rates ranging from 2.00% – 4.50%. The bonds mature on February 1, 2023. The outstanding principal amount of the bonds at December 31, 2014 and 2013 was \$340,000 and \$310,000, respectively. The bonds were sold at a premium in the amount of \$35,744. The premium is being amortized over the term of the bonds. The unamortized bond premium is recorded as a noncurrent liability on the Statement of Net Position. The premium amortization, which is a decrease in interest expense, was \$3,252 and \$3,352 for the years ended December 31, 2014 and 2013, respectively. The unamortized bond premium as of December 31, 2014 and 2013 was \$29,270 and \$32,522, respectively.

Future maturities of bonds are as follows:

	Principal	Interest	Total
2015	\$ 30,000	\$ 11,500	\$ 41,500
2016	30,000	10,600	40,600
2017	35,000	9,450	44,450
2018	35,000	8,050	43,050
2019	35,000	6,650	41,650
2020-2023	145,000	11,825	156,825
	<u>\$ 310,000</u>	<u>\$ 58,075</u>	<u>\$ 368,075</u>

Note J – Long-term debt

Long-term debt activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Reductions	Ending Balance	Due Within One Year
<u>Enterprise Activities:</u>				
General Obligation Bonds	\$ 756,000	\$ -	\$ 756,000	\$ 33,000
Kentucky Rural Water Note	340,000	(30,000)	310,000	30,000
Enterprise Activities				
Long-term Liabilities	<u>\$ 1,096,000</u>	<u>\$ (30,000)</u>	<u>\$ 1,066,000</u>	<u>\$ 63,000</u>

West Shelby Water District
Notes to Financial Statements (Continued)
December 31, 2014 and 2013

Note K – Revenue from Sale of Water

The following is a statistical analysis of water purchased, sold, and unbilled.

	Water Purchased		Water Sold		Water Unbilled	
	Gallons	Cost/1000	Gallons Sold/1000			
2014	304,158,960	\$ 2.072	280,432,100	\$ 5.427	23,726,860	7.80%
2013	265,456,100	\$ 2.025	242,633,310	\$ 5.545	22,822,790	8.60%
2012	283,049,100	\$ 1.937	257,873,100	\$ 5.403	25,176,000	8.89%
2011	279,901,600	\$ 1.837	253,163,100	\$ 5.250	26,738,500	9.55%
2010	282,987,000	\$ 1.763	260,177,300	\$ 5.047	22,809,700	8.06%

Note L – Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Reclassifications had no impact on total net position or change in net position.

Note M – Future Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. GASB Statement No. 68 addresses accounting and financial reporting for pensions that are provided to the employees through trusts that have defined characteristics. The statement is effective for fiscal year’s beginning after June 15, 2014.

This statement establishes standards for measuring and recognizing liabilities, deferred outflows/inflows of resources and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to the periods of employs services. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities to a defined pension plan. The District is currently evaluating the impact that will result from adopting GASB No. 68 and is therefore unable to disclose the impact that adopting the Standard will have on the District’s financial position and the results of its operations when the Statement is adopted.

Supplementary Information

West Shelby Water District
Schedule of Revenues, Expenses and Changes in Net Position - Actual to Budget
For the Fiscal Year Ended December 31, 2014

	Actual	Budget	Variance Favorable (Unfavorable)
Revenue from Sale of Water			
Residential customers	\$ 684,133	\$ 723,000	\$ (38,867)
Industrial customers	364,979	335,000	29,979
Commercial customers	302,609	162,000	140,609
Public authorities	63,315	55,000	8,315
Private fire protection	61,390	50,000	11,390
Multi-family dwellings	45,550	35,000	10,550
Total Revenue from Sale of Water	<u>1,521,976</u>	<u>1,360,000</u>	<u>161,976</u>
Other Revenue			
Forfeited discounts	18,950	15,000	3,950
Miscellaneous revenue	13,675	16,000	(2,325)
Total Other Revenues	<u>32,625</u>	<u>31,000</u>	<u>1,625</u>
Total Revenues	1,554,601	1,391,000	163,601
Operating and Maintenance Expenses			
Water purchased	629,663	522,000	(107,663)
Salaries	216,034	216,300	266
Maintenance materials and supplies	29,715	18,100	(11,615)
Power-pumping equipment	13,524	19,000	5,476
Operating supplies and expenses	10,480	5,000	(5,480)
Employee retirement	36,339	39,000	2,661
Employee insurance	28,598	32,000	3,402
Insurance	28,105	30,000	1,895
Office supplies	21,086	18,000	(3,086)
Legal and accounting	20,053	24,000	3,947
Truck and equipment expenses	17,809	20,700	2,891
Commissioners fees	17,200	18,000	800
Utilities	15,504	14,000	(1,504)
Payroll taxes	14,872	18,000	3,128
Computer/copier support	11,424	6,000	(5,424)
Miscellaneous	6,207	5,100	(1,107)
Employee uniforms	4,133	4,600	467
Employee training	2,984	2,500	(484)
Rent	2,275	2,300	25
Uncollectible revenue	875	-	(875)
Travel	453	300	(153)
Interest on customer deposits	250	400	150
Total Operating and Maintenance Expenses	<u>1,127,583</u>	<u>1,015,300</u>	<u>(112,283)</u>

West Shelby Water District
Schedule of Revenues, Expenses and Changes in Net Position - Actual to Budget (Continued)
For the Fiscal Year Ended December 31, 2014

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Other Operating Deductions			
Depreciation	303,528	281,350	(22,178)
Total Other Operating Deductions	<u>303,528</u>	<u>281,350</u>	<u>(22,178)</u>
 Total Expenses	 <u>1,431,111</u>	 <u>1,296,650</u>	 <u>(134,461)</u>
 Total Operating Income	 123,490	 94,350	 29,140
Non-operating Revenues (Expenses)			
Net increase in fair value of investments	19,395		19,395
Investment income	17,983	10,000	7,983
Interest on long-term debt	<u>(41,128)</u>	<u>(55,000)</u>	<u>13,872</u>
Total Non-operating Revenues (Expenses)	<u>(3,750)</u>	<u>(45,000)</u>	<u>41,250</u>
 Excess Revenue (Under) Over Expenses	 <u>\$ 119,740</u>	 <u>\$ 49,350</u>	 <u>\$ 70,390</u>

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

West Shelby Water District
Simpsonville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the West Shelby Water District “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 and have issued our report thereon dated March 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

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

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* (Continued)

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.

Frankfort, Kentucky
March 15, 2015