

BARKLEY LAKE WATER DISTRICT

FINANCIAL AND COMPLIANCE AUDIT

December 31, 2014

**BARKLEY LAKE WATER DISTRICT
PO BOX 308
CADIZ, KY 42211**

FINANCIAL AND COMPLIANCE AUDIT

DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Barkley Lake Water District
PO Box 308
Cadiz, Kentucky 42211

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Barkley Lake 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 business-type activities of Barkley Lake 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 information on pages 4 – 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Barkley Lake Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Board of Commissioners
February 16, 2015
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2015, on our consideration of Barkley Lake Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Barkley Lake Water District's internal control over financial reporting and compliance.

Hopkinsville, Kentucky
February 16, 2015

A handwritten signature in cursive script that reads "Calhoun & Company". The signature is written in dark ink and is positioned to the right of the date and location text.

BARKLEY LAKE WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2014

The Management's Discussion and Analysis of the Barkley Lake Water District (District) provides a narrative overview and analysis of the District's financial statements and the activities of the District for the year ended December 31, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the accompanying financial statements.

Financial Highlights

- The District's 2014 operating revenues of \$2,457,020 increased 4.52% from 2013, while 2014 operating expenses of \$2,411,085 increased 8.73% from 2013.
- The District's net position, a measure of current financial resources, decreased by \$112,251 resulting in a December 31, 2014 balance of \$8,147,783.
- The District's unrestricted cash available for operating expenses was \$1,216,794 at December 31, 2014.
- The District's investment in utility plant, net of depreciation, including the construction in progress, was \$15,583,104 at December 31, 2014.

Overview of Financial Statements

Barkley Lake Water District is a self-reporting proprietary fund. The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in fund net position, statement of cash flows and notes to the financial statements. The District does not include financial information of any other entity, nor is it included in the financial information of any other entity.

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 represents information on the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference between them 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.

Statement of Revenues, Expenses and Changes in Fund Net Position

The statement of revenues, expenses and changes in fund 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 fiscal periods.

Statement of Cash Flows

The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year.

**BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Overview of the District's Financial Position and Results of Operations

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$8,147,783 at December 31, 2014.

The largest portion of the District's net position reflects its net investment in capital assets of \$4,156,806 (e.g. water tanks, land and improvements, buildings and improvements, equipment and distribution systems) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be liquidated to service these liabilities.

The District's restricted net position totaled \$2,949,808 at December 31, 2014 and consisted of cash restricted for debt service and construction.

Unrestricted net position totaled \$1,041,169 at December 31, 2014.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets. The District's overall financial position and operations for the year ended December 31, 2014 as compared to December 31, 2013 are as follows:

**BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net Position

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets	\$ 4,021,098	\$ 3,463,206
Capital Assets	15,583,104	15,504,679
Noncurrent Assets	<u>815,350</u>	<u>815,351</u>
Total Assets	<u>20,419,552</u>	<u>19,783,236</u>
Deferred Outflows of Resources		
Deferred Loss on Refunding Bonds	<u>18,587</u>	<u>18,587</u>
Total Deferred Outflows of Resources	<u>18,587</u>	<u>18,587</u>
Liabilities		
Current Liabilities	792,774	598,034
Long-term Liabilities	<u>11,497,582</u>	<u>10,943,755</u>
Total Liabilities	<u>12,290,356</u>	<u>11,541,789</u>
Net Position		
Net Investment in Capital Assets	4,156,806	4,640,413
Restricted - Expendable	2,949,808	2,278,708
Unrestricted	<u>1,041,169</u>	<u>1,340,913</u>
Total Net Position	<u><u>\$ 8,147,783</u></u>	<u><u>\$ 8,260,034</u></u>

**BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

Change in Net Position

	<u>2014</u>	<u>2013</u>
Revenues		
Operating Revenues	\$ 2,457,020	\$ 2,350,734
Non-Operating Revenues	45,621	44,052
Capital Contributions	<u>183,065</u>	<u>621,171</u>
Total Revenues	<u>2,685,706</u>	<u>3,015,957</u>
Expenses		
Operating Expenses	2,411,085	2,217,488
Non-Operating Expenses	<u>386,872</u>	<u>392,351</u>
Total Expenses	<u>2,797,957</u>	<u>2,609,839</u>
Change in Net Position	<u>(112,251)</u>	<u>406,118</u>
Net Position, Beginning of Year	8,260,034	8,072,386
Net Position, Prior Period Adjustment	<u>-</u>	<u>(218,470)</u>
Net Position, Beginning of Year as Restated	<u>8,260,034</u>	<u>7,853,916</u>
Net Position, Ending of Year	<u><u>\$ 8,147,783</u></u>	<u><u>\$ 8,260,034</u></u>

**BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

Capital Assets

The District's investment in capital assets, net of depreciation as of December 31, 2014 was as follows:

	Balance January 1, 2014	Additions (Eliminations)	Balance December 31, 2014
Nondepreciable Assets			
Land	\$ 110,072	\$ 7,450	\$ 117,522
Construction in Progress	125,671	632,019	757,690
Total Nondepreciable Assets	235,743	639,469	875,212
Depreciable Assets			
Buildings	10,421,677	57,144	10,478,821
Pumping Equipment	23,034	-	23,034
Transmission Lines	11,102,029	-	11,102,029
Meters	1,617,605	35,129	1,652,734
Plant Equipment	560,704	(36,499)	524,205
Office Equipment	115,148	-	115,148
Vehicles	292,927	(13,783)	279,144
Total Depreciable Assets	24,133,124	41,991	24,175,115
Accumulated Depreciation	(8,864,185)	(603,038)	(9,467,223)
Net Depreciable Assets	15,268,939	(561,047)	14,707,892
Net Capital Assets	<u>\$ 15,504,682</u>	<u>\$ 78,422</u>	<u>\$ 15,583,104</u>

During the year ended December 31, 2014, the District continued work on the Cerulean project and an additional \$689,163 was charged to construction in progress. Total construction in progress at year end was \$757,690. Depreciation expense for the year was \$653,320.

Long-term Debt

Debt activity for the year ended December 31, 2014 was as follows:

	Balance January 1, 2014	Additions (Payments)	Balance December 31, 2014	Current Maturities
Bond Series 2005	\$ 1,084,000	\$ (17,000)	\$ 1,067,000	\$ 18,000
Bond Series 2008C	2,600,000	(105,000)	2,495,000	110,000
Bond Series 2010A	4,002,000	(45,500)	3,956,500	47,000
Bond Series 2010B	1,790,000	(27,015)	1,762,985	25,500
Bond Series 2012E	1,395,000	(70,000)	1,325,000	75,000
Bond Anticipation	-	825,000	825,000	-
	<u>\$ 10,871,000</u>	<u>\$ 560,485</u>	<u>\$ 11,431,485</u>	<u>\$ 275,500</u>

**BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

Long-term Debt, Continued

By a resolution of the Commission on August 26, 2014, the District authorized an \$825,000 Bond Anticipation note through Kentucky Rural Water Finance Corporation, Interim Finance Program. The interim financing was for the Cerulean Area Water System Improvements and will be secured through a bond issuance in 2015. Interest expense of \$379,677 was paid during the year ended December 31, 2014.

Request for Information

This financial report is designed to provide a general overview of the Barkley Lake 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 Scott Bridges, Chairman, Barkley Lake Water District, P.O. Box 308, Cadiz, Kentucky 42211.

BARKLEY LAKE WATER DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
DECEMBER 31, 2014

Assets

Current Assets

Cash and Cash Equivalents	\$	1,216,794
Accounts Receivable		343,781
Other Receivables		3,090
Inventory		300,095
Prepaid Expenses		22,355
Restricted Cash		<u>2,134,983</u>
Total Current Assets		<u>4,021,098</u>

Noncurrent Assets

Restricted Cash		<u>814,825</u>
Total Restricted Cash		<u>814,825</u>

Capital Assets

Depreciable Capital Assets, Net of Depreciation		14,707,892
Non-depreciable Capital Assets		<u>875,212</u>
Total Capital Assets		<u>15,583,104</u>

Other Assets

Utility Deposit		<u>525</u>
Total Other Assets		<u>525</u>
Total Noncurrent Assets		<u>16,398,454</u>

Total Assets		<u>20,419,552</u>
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Deferred Outflows of Resources

Deferred Loss on Refunding Bonds		<u>18,587</u>
Total Deferred Outflows of Resources		<u>18,587</u>

Liabilities**Current Liabilities**

Accounts Payable	378,138
Payroll Liabilities	28,617
Accrued Expenses:	
Taxes	5,635
Interest	104,166
Current Maturities of Long-Term Debt	<u>276,218</u>
 Total Current Liabilities	 <u>792,774</u>

Noncurrent Liabilities

Compensated Absence	23,441
Customers' Deposits	305,474
Bonds Payable	<u>11,168,667</u>
 Total Noncurrent Liabilities	 <u>11,497,582</u>
 Total Liabilities	 <u>12,290,356</u>

Net Position

Net Investment in Capital Assets	4,156,806
Restricted - Expendable	2,949,808
Unrestricted	<u>1,041,169</u>
 Total Net Position	 <u>\$ 8,147,783</u>

BARKLEY LAKE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

Operating Revenues

Charges for Services	\$ 2,450,377
Miscellaneous Revenue	6,643
Total Operating Revenues	<u>2,457,020</u>

Operating Expenses

Salaries, Wages and Benefits	944,975
Purchased Power	207,420
Chemicals	113,711
Materials and Supplies	273,949
Contract Services	55,529
Transportation Expense	54,437
Insurance	35,570
Miscellaneous	17,087
Taxes	55,087
Depreciation and Amortization	653,320
Total Operating Expenses	<u>2,411,085</u>
Operating Income (Loss)	<u>45,935</u>

Non-operating Revenues (Expenses)

Interest Revenue	10,111
Federal Interest Subsidy	12,920
Gain on Disposal of Asset	22,590
Bond Issuance Costs	(7,195)
Interest Expense	(379,677)
Total Non-operating Revenues (Expenses)	<u>(341,251)</u>

Capital Contributions

Contributed Capital	<u>183,065</u>
Total Capital Contributions	<u>183,065</u>

Change in Net Position	<u>(112,251)</u>
Net Position, Beginning of Year	<u>8,260,034</u>
Net Position, End of Year	<u><u>\$ 8,147,783</u></u>

**BARKLEY LAKE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Cash Flows from Operating Activities

Received from Customers	\$ 2,452,235
Paid to Suppliers for Goods and Services	(497,789)
Paid to Employees	(953,949)
	<hr/>
Net Cash Provided (used) by Operating Activities	1,000,497
	<hr/>

Cash Flows from Capital and Related Financing Activities

Acquisition and Construction of Property, Plant and Equipment	(731,947)
Proceeds from Sale of Property, Plant and Equipment	22,590
Proceeds from Capital Grants	326,763
Proceeds from Federal Interest Subsidy	22,443
Payment of Debt Issuance Costs	(7,195)
Principal Paid on Long-Term Debt	(264,515)
Proceeds from Issuance of Long-Term Debt	825,000
Interest Paid on Debt	(379,414)
	<hr/>
Net Cash Provided (used) by Capital and Related Financing Activities	(186,275)
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Cash Flows from Investing Activities

Interest Income	588
	<hr/>
Net Cash Provided (used) by Investing Activities	588
	<hr/>

Net Increase (Decrease) in Cash	814,810
Cash and Cash Equivalents, Beginning of Year	3,351,792
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Cash and Cash Equivalents, End of Year	\$ 4,166,602
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**BARKLEY LAKE WATER DISTRICT
STATEMENT OF CASH FLOWS , CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

Reconciliation of Operating Activities to Net Cash Flows from Operating Activities

Cash Flows from Operating Activities

Operating Income (Loss)	\$ 45,935
Adjustments - Operating Activities	
Depreciation and Amortization	653,320
Bad Debt	9,725
(Increase) Decrease in	
Accounts Receivable	(20,114)
Other Receivable	2,855
Inventory	121,376
Prepaid Insurance	(419)
Increase (Decrease) in	
Accounts Payable	195,082
Other Payable	(3,893)
Accrued Taxes	141
Payroll Liabilities	(10,572)
Compensated Absence	1,598
Tenant Deposits Payable	5,463
	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ 1,000,497
	<hr/> <hr/>

Non-Cash Activities

Capital and Related Financing Activities	<hr/> <hr/> \$ -
Investing Activities	<hr/> <hr/> \$ -

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Summary of Significant Accounting Policies

a. Activity

The Barkley Lake 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 Cadiz, Kentucky and primarily serves the Trigg County, Kentucky area.

b. Principles Determining Scope of Reporting Entity

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

c. 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, deferred outflows or resources, liabilities, and deferred inflows of resources 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, and has elected to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989 which do not conflict with GASB pronouncements.

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.

d. Revenue Recognition

Operating revenues are recognized in the period that water is supplied to participants and others. All other revenues are reflected in non-operating income when earned.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Summary of Significant Accounting Policies, Continued

e. 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. The estimated revenues from unbilled receivables at year-end are reflected in these financial statements

f. Taxes on Income

The Barkley Lake Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

g. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Unrestricted and restricted cash are reflected in total cash and cash equivalents.

h. Accounts Receivable

The direct write-off method was used for recording uncollectible accounts. No allowance for uncollectible accounts was deemed necessary. The District grants credit to customers, substantially all of who are residents of Trigg County. The balance of accounts receivable at December 31, 2014 was \$343,781.

i. Inventory

Inventories consist of materials and supplies and are stated at cost which is determined by the first-in, first-out method. Inventory at December 31, 2014 totaled \$300,095.

j. Capital Assets

The utility plant is carried at cost. The District maintains a capitalization threshold of \$1,000. 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 during that 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 revenues, expenses and changes in fund net position – proprietary fund.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Summary of Significant Accounting Policies, Continued

j. Capital Assets, Continued

Capital assets are depreciated over the following useful lives:

Buildings	10 - 50 Years	Pumping Equipment	5 - 10 Years
Transmission Lines	5 - 50 Years	Meters	5 - 10 Years
Plant Equipment	5 - 10 Years	Office Equipment	5 - 10 Years
Vehicles	5 Years		

k. Use of Restricted / Unrestricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the District's policy is to apply restricted resources first.

l. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s), so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. The deferred loss on refunding bonds \$18,587 represents the difference between the reacquisition price and the net carrying amount of the old debt on the 2008 and 2012E refunding. It will be recognized as a component of interest expense over the remaining life of the new debt.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s), so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

m. Compensated Absences

Sick leave is accumulated and will be paid to employees retiring on good terms from the District. Sick leave is forfeitable for employees terminating other than by retirement. Due to the uncertainty involved, no provision for unpaid sick leave has been reflected in the financial statements.

In accordance with the District's policy on vacation pay, the District has accrued a liability for pay, which has been earned but not taken by employees. The District is currently liable for compensated absences of \$23,441 at December 31, 2014.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Summary of Significant Accounting Policies, Continued

n. Proprietary Fund Net Position

Proprietary fund net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is displayed in three components:

Net Investment in Capital Assets – consists of capital assets net of accumulated depreciation and is reduced by any outstanding debt that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted Net Position – consists of net assets with constraints placed on the use by either external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or by state enabling legislation.

Unrestricted Net Position – consists of all other net assets that do not meet the definition of “restricted” or “net investment in capital assets”.

o. Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurement and Disclosures*, defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use on pricing the asset or liability, not on assumptions specific to the entity.

Cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, payroll liabilities, and accrued expenses - The carrying amounts reported in the balance sheets for these items are a reasonable estimate of the fair value.

Bonds Payable and Customers' Deposits – The carrying amount approximates fair value.

p. Date of Management's Review

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through February 16, 2015, the date the financial statements were available to be issued.

BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

2. Bank Accounts

a. Unrestricted Cash

Current revenues are deposited daily in the Revenue Fund, which earns interest at the passbook rate. Disbursements from this fund are made into the following funds as required by the bond covenants and are more fully described in subsequent paragraphs and notes:

- (1) Operation and Maintenance Fund
- (2) Bond Sinking Fund and Reserve
- (3) Depreciation Fund

On or before the twentieth day of each month, there is to be withdrawn from the Revenue Fund and deposited to the Operation and Maintenance Fund, an amount sufficient to pay the current expenses of operating and maintaining the plant pursuant to the annual budget. This fund is reported on the balance sheet as cash for general use.

b. Restricted Cash

Customers deposits are maintained in a separate account as described in Note 3.

The requirement to maintain separate and special bank accounts was established by the historical bond issues as well as the Bond Series of 2005, 2008, 2010A, 2010B and 2012E. The bond covenants require additional sums to be deposited in the Bond Sinking Fund and Depreciation Fund as described in Notes 4 and 5.

Construction accounts related to current expansion have been established to account for project funding as described in Note 6.

3. Customers' Deposits Fund

A separate fund has been established by the District and is to be maintained as long as a liability exists to customers for meter deposits held by the District.

At December 31, 2014 the composition of the customer deposit fund is as follows:

Cash in Bank - Checking	\$ 130,382
Certificates of Deposit	<u>306,055</u>
Total Customers' Deposit	<u><u>\$ 436,437</u></u>

BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

3. Customers' Deposits Fund, Continued

At December 31, 2014 the District's liability for customers' deposit was:

Meter Deposits	\$ 303,965
Interest Payable	3,345
Final Bill Payables	<u>(1,836)</u>
Total Customers' Deposit Liability	<u><u>\$ 305,474</u></u>

4. Bond Sinking Fund and Sinking Fund Reserve

The bond ordinance of 1969 established this fund solely for the purpose of paying the principal and interest on all bonds. The ordinance requires that the monthly amount deposited equals one-sixth of the next succeeding interest installment, one-twelfth of the principal of all bonds maturing on the next November 1st to a maximum of \$475,582.

The composition of the Bond Sinking and Reserve Funds is as follows:

Cash in Bank - Sinking Fund	\$ 17,412
Cash in Bank - System Refunding	259,262
Cash in Bank - Sinking Fund	112,302
Cash in Bank - Regions Refunding	56,609
Cash in Bank - Regions Refunding	62,633
Certificate of Deposit - Sinking Fund	<u>240,536</u>
Total Bond Sinking and Reserve Funds	<u><u>\$ 748,754</u></u>

5. Depreciation Fund

This fund was established by the bond ordinance of 1969. The ordinance requires Barkley Lake Water District to make monthly contributions to this fund after observing the priority of deposits into the Water System Bond and Interest Sinking Fund (Bond Sinking Fund and Reserve). The following bond ordinances require monthly deposits until a maximum amount is accumulated:

<u>Issue</u>	<u>Monthly Deposit</u>	<u>Maximum Requirement</u>
2005	\$ 540	\$ 64,800
2008C	-	-
2010A	1,755	210,600
2010B	755	90,600
2012E	-	-

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

5. Depreciation Fund, Continued

The maximum required level of funding all bond resolutions is \$366,000. The Water System Revenue Bonds, Series 2008C and 2012E require the maintaining of a Depreciation Fund but do not modify the method or level of funding. As of December 31, 2014, the depreciation cash and certificates of deposit totaled \$1,302,419.

As further security for the bond owners and for the benefit of the District, in addition to the monthly transfers required to be made there shall be deposited all proceeds of connection fees collected from potential customers to aid in the financing of the cost of future extensions, additions and improvements to the District, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended. The funds in the Depreciation fund can be expended for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, and the cost of construction additions and improvements to the system.

6. Construction Funds

Expansion projects currently in construction are funded through the construction accounts as detailed below. Initial funding was obtained through the 2008 bond issue.

Cash in Bank - Construction	\$ 4,151
Cash in Bank - Regions Construction	7,478
Cash in Bank - Regions Construction	448,153
Cash in Bank - KIA Fund	<u>2,416</u>
Total Construction Funds	<u>\$ 462,198</u>

7. Deposits and Investments

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that have a market value of not less than the principal amount of deposits. The District's deposits, including certificates of deposit, were insured or collateralized as required by State statutes at their highest daily balance during the year.

Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments, or collateral from the bank in the event of bank failure. The District does not have a policy addressing custodial credit risk.

The District is exposed to custodial credit risk at various points throughout the year. The District's deposits not covered by depository insurance are collateralized by pledged securities held by the financial institution.

During the year ended December 31, 2014, the District held balances at two financial institutions. The highest cash day for one institution consisted of a bank balance totaling \$3,561,526. That balance was covered by \$250,000 Federal Deposit Insurance and the remainder by pledged securities of \$3,763,714. The deposits were over collateralized by \$452,188. The second institution had a highest

BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

7. Deposits and Investments, Continued

cash day balance of \$971,348. That balance was covered by \$250,000 Federal Deposit Insurance and the remainder secured by perfected liens on the Bank's securities in an amount not less than 105% of the total excess deposits of \$721,348.

8. Capital Assets

Capital asset activity for the year ended December 31, 2014:

	Balance January 1, 2014	Additions	Eliminations	Balance December 31, 2014
Depreciable Assets				
Buildings - Water Plant	\$ 10,416,934	\$ 57,144	\$ -	\$ 10,474,078
Buildings - General Plant	4,743	-	-	4,743
Pumping Equipment	23,034	-	-	23,034
Transmission Lines	11,102,029	-	-	11,102,029
Meters	1,617,605	35,129	-	1,652,734
Plant Equipment	560,704	-	36,499	524,205
Office Equipment	115,148	-	-	115,148
Vehicles	292,927	-	13,783	279,144
Total Depreciable Assets	24,133,124	92,273	50,282	24,175,115
Accumulated Depreciation				
Buildings - Water Plant	2,773,453	251,285	-	3,024,422
Buildings - General Plant	975	-	-	1,291
Pumping Equipment	23,034	-	-	23,034
Transmission Lines	4,108,828	268,636	-	4,377,464
Meters	1,315,448	72,216	-	1,387,664
Plant Equipment	341,357	32,824	36,499	337,682
Office Equipment	93,546	5,810	-	99,356
Vehicles	207,544	22,549	13,783	216,310
Total Accumulated Depreciation	8,864,185	653,320	50,282	9,467,223
Net Depreciable Assets	15,268,939	(561,047)	-	14,707,892
Non-Depreciable Assets				
Land	110,072	7,450	-	117,522
Construction in Progress	125,671	689,163	57,144	757,690
Total Non-Depreciable Assets	235,743	696,613	57,144	875,212
Net Capital Assets	\$ 15,504,682	\$ 135,566	\$ 57,144	\$ 15,583,104

Depreciation charged to expense was \$653,320 at December 31, 2014.

BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

9. Interest Expense

The District incurred interest costs in 2014 of \$379,677. The entire amount has been recognized as a current non-operating expense.

10. Long-term Debt

The original amount of each bond issue, the bond issue dates, interest rates, and maturity dates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Maturity Date</u>
2005	\$ 1,185,000	4.000% - 6.000%	2044
2008C	3,060,000	2.350% - 4.550%	2037
2010A	4,002,000	3.375%	2051
2010B	1,837,000	3.000%	2049
2012E	1,465,000	2.200% - 3.550%	2033
Bond Anticipation Note	825,000	2.400%	2054

Changes in the long-term liability accounts during the year are summarized below:

	<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>
Revenue Bonds 2005	\$ 1,084,000	\$ -	\$ 17,000	\$ 1,067,000	\$ 18,000
Revenue Bonds 2008C	2,600,000	-	105,000	2,495,000	110,000
Revenue Bonds 2010A	4,002,000	-	45,500	3,956,500	47,000
Revenue Bonds 2010B	1,790,000	-	27,015	1,762,985	25,500
Revenue Bonds 2012E	1,395,000	-	70,000	1,325,000	75,000
Bond Anticipation Note	-	825,000	-	825,000	-
Premium on Bond 2012E	14,118	-	718	13,400	718
Total Bond Obligation	10,885,118	825,000	265,233	11,444,885	276,218
Compensated Absences	21,843	1,598	-	23,441	-
	<u>\$ 10,906,961</u>	<u>\$ 826,598</u>	<u>\$ 265,233</u>	<u>\$ 11,468,326</u>	<u>\$ 276,218</u>

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

10. Long-term Debt, Continued

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District at December 31, 2014 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 275,500	\$ 400,164	\$ 675,664
2016	254,000	391,461	645,461
2017	280,500	382,800	663,300
2018	290,000	373,120	663,120
2019	305,000	362,844	667,844
2020 - 2024	1,700,500	1,637,674	3,338,174
2025 - 2029	1,808,000	1,301,769	3,109,769
2030 - 2034	1,670,000	995,470	2,665,470
2035 - 2039	1,430,000	707,031	2,137,031
2040 - 2044	1,451,000	470,229	1,921,229
2045 - 2049	1,406,985	222,648	1,629,633
2050 - 2054	560,000	32,176	592,176
Total	<u>\$11,431,485</u>	<u>\$ 7,277,386</u>	<u>\$18,708,871</u>

By a resolution of the Commission on August 26, 2014, the District authorized an \$825,000 Bond Anticipation note through Kentucky Rural Water Finance Corporation, Interim Finance Program. The Interim financing was for the Cerulean Area Water System Improvements and will be secured through a bond issuance in 2015.

The District issued \$4,002,000 of revenue bonds (Series 2010A) for the purpose of financing construction projects. The bonds carry an interest rate of 3.375% and mature between November 1, 2014 and November 1, 2051.

The District completed a current refunding of the 1976 and 1993 bond issues, dated August 29, 2012. The par amount of the 2012E refunding issue is \$1,465,000 and it has a total debt service requirement of \$2,031,446. The combined remaining total debt service requirement of the 1976 and 1993 bond issues at the date of refunding was \$2,271,305, which produces a cash flow savings of \$197,120. The net present value of the economic gain on the combined refunding of 1976 and 1993 bond issues is \$185,180.

The District issued the Series 2010B bonds through the Build America Bond Program that provides 35% in federal subsidies on the total interest requirements. The interest is paid directly to the District's bond escrow account on a semi-annual basis corresponding with the interest payment dates to the bond holders. Total subsidy payments received at December 31, 2014 were \$19,005.

All the Revenue Bonds are payable solely from, and secured by, a first pledge of the water revenues. So long as any of the bonds are outstanding and unpaid, the District shall continuously be maintained

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

10. Long-term Debt, Continued

and operated in good condition. Rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times, to provide for the payment of the operation and maintenance of the water plant, and to maintain the Depreciation and Sinking Funds described in Notes 4 and 5.

If there is any default in the payment of the principal or interest on any of the outstanding bonds, and suit is filed by a holder of said bond, any court having jurisdiction may appoint a receiver to administer the District with the power to charge and collect rates. These collected rates shall be sufficient to provide for the payment of the outstanding bonds, and the operating and maintenance expenses. The income and revenues shall be in conformity with the bond resolution, and the provisions of the applicable laws of Kentucky.

The plant may be sold, or otherwise disposed of only as a whole or substantially as a whole and then only if the proceeds to be realized therefore, together with any monies in the Sinking Fund are sufficient fully to redeem at the then current redemption prices all outstanding bonds and other obligations payable from the net revenues of the District. The bond covenants require that the rates for all utility services rendered by the District must be reasonable.

The District must maintain adequate public liability insurance including fire, windstorm, and hazards covered by a standard extended coverage policy. The net revenues of the District will be equal to 120% of the maximum annual principal, interest and Sinking Fund requirements of all outstanding bonds. Net revenues are defined to be gross revenues less current expenses of the system. Current expenses includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements and extraordinary repairs and maintenance, and payments into the Bond Fund and the Debt Service Reserve. The bond covenant also requires the District be audited within 90 days of year-end. The requirements that the District maintain a 1.20 times debt coverage ratio was met for the year ended December 31, 2014. The requirement that the District be audited within 90 days of year-end was met.

11. Retirement Plan

The County Employees Retirement System (CERS) is a multiple employer cost sharing defined benefit public employees retirement system which covers substantially all regular full-time employees of each county and local government agencies. The plan provides for retirement, disability, and death benefits to plan members. Copies of this report may be obtained from Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3 percent compounded annually through June 30, 1980, 6 percent thereafter through June 30, 1986, and 4 percent thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board.

BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

11. Retirement Plan, Continued

CERS covered employees are required to contribute an amount equal to 5 percent of gross pay and 6 percent of gross pay if employed after September 1, 2008 and the employer was required to contribute an amount equal to 18.89 percent of gross pay for the six months ended June 30, 2014 and 17.67 percent for the six months ended December 31, 2014.

The three year trend information for the District's contribution requirement to CERS is as follows:

<u>Year Ended:</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
December 31, 2014	\$ 112,889	100%
December 31, 2013	106,321	100%
December 31, 2012	106,310	100%

CERS does not make separate measurements of assets and pension benefit obligations for individual employers. The following table presents certain information regarding the plan's status as a whole, derived from actuarial valuations (all dollar amounts are in \$1,000's) performed as of June 30, 2014:

	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Underfunded Actuarial Liability as Percentage of Covered Payroll</u>
CERS	\$ 8,084,774	\$ 13,061,348	\$ 4,976,574	61.60%	\$ 2,751,434	180.90%

As the District is only one of several employers participating in the plan, it is not practical to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the plan assets.

12. Leases

The District leases a postage meter from Pitney Bowes, Inc. at a rate of \$345 per quarter. The total lease expense for the year ended June 30, 2014 is \$1,380.

Future minimum payments for this operating lease are \$1,150.

13. Commitments and Contingencies

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2014 there were no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from state grant funds are recognized and are recorded as contributed capital.

**BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014**

14. 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, property and casualty, employee health and accident coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

15. New GASB Standards

In the year ended December 31, 2014, the District needs to consider the effect of implementing GASB Statement No. 67, "Financial Reporting for Pension Plans" and Statement No. 68, "Accounting and Financial Reporting for Pensions". These statements reflect substantial improvements to the accounting and financial reporting of pensions by state and local government pension plans. Statement No. 67 addresses financial reporting for state and local government pension plans, while Statement No. 68 addresses the measurement and recording of pension costs, including those for participants in the multi-employer plans.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pension in important ways. It is designed to improve the decision and/or usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments.

Under the pension standards now in effect, cost-sharing employers have not been required to represent actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined. Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all governments in the plan.

Statement No. 67 takes effect for pension plans with a fiscal year beginning after July 15, 2013 (that is for fiscal year ending June 30, 2014 or later). The implementation of this Statement does not have any impact on the District's financial statements.

Statement No. 68 will take effect for pension plans in fiscal years beginning after June 15, 2014. The impact of this statement will be disclosed in the year ended December 31, 2015.

**BARKLEY LAKE WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Grantor / Program Title	Federal CFDA Number	Pass-Through Grantor Number	Expenditures
<u>U.S. Department of Agriculture</u>			
Water and Waste Program Cluster			
Passed-Through Rural Development			
Water and Waste Disposal Systems			
for Rural Communities	10.760	N/A	\$ 565,497
Total U.S. Department of Agriculture			<u>565,497</u>
Total Federal Awards Expenditures			<u><u>\$ 565,497</u></u>

The Schedule of Expenditures of Federal Awards includes the grant and loan activity of the District and is presented on the statutory basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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

To the Board of Commissioners
Barkley Lake Water District
PO Box 308
Cadiz, Kentucky 42211

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 Barkley Lake Water District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Barkley Lake Water District's basic financial statements, and have issued our report thereon dated February 16, 2015.

Internal Control Over Financial Reporting

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

To the Board of Commissioners
February 16, 2015
Page 2 of 2

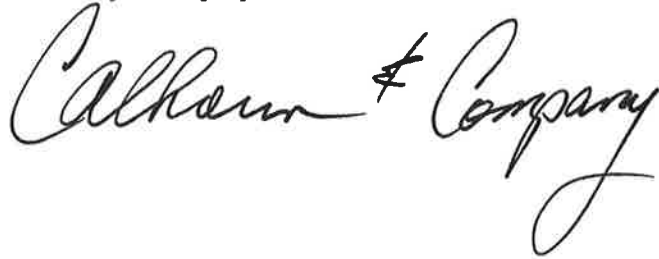
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Barkley Lake 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.

Hopkinsville, Kentucky
February 16, 2015

A handwritten signature in black ink that reads "Calhoun & Company". The signature is written in a cursive, flowing style. The word "Calhoun" is followed by an ampersand "&" and then the word "Company".

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Commissioners
Barkley Lake Water District
PO Box 308
Cadiz, Kentucky 42211

Report on Compliance for Each Major Federal Program

We have audited Barkley Lake Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Barkley Lake Water District's major federal programs for the year ended December 31, 2014. Barkley Lake Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Barkley Lake Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Barkley Lake Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Barkley Lake Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Barkley Lake Water District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Barkley Lake Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Barkley Lake Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Barkley Lake Water District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hopkinsville, Kentucky
February 16, 2015

A handwritten signature in cursive script that reads "Calhoun & Company". The signature is written in dark ink and is positioned to the right of the date and location text.

**BARKLEY LAKE WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Section I – Summary of Auditor’s Results

Financial Statements

Type of Auditor’s Report Issued	Unqualified
Internal Control Over Financial Report: Material Weakness(es) Identified?	No
Significant Deficiency(ies) Identified That are not Considered to be Material Weaknesses?	None Reported
Noncompliance Material to Financial Statements Noted?	No

Federal Awards

Internal Control Over Major Programs: Material Weakness(es) Identified?	No
Significant Deficiency(ies) Identified That are not Considered to be Material Weaknesses?	None Reported
Type of Auditor’s Report Issued on Compliance for Major Programs:	Unqualified
Audit Findings Disclosed that are Required to be Reported in Accordance with Section 510(a) of OMB Circular A-133?	None Reported
Identification of Major Programs:	
Water and Waste Program Cluster CFDA #10.760 – Water and Waste Disposal Systems for Rural Communities	
Dollar Threshold Used to Distinguish Between Type A and Type B Programs:	\$300,000
Auditee Qualified as Low-Risk Auditee?	Yes

Section II – Financial Statement Findings

No Matters Were Reported.

Section III – Federal Award Findings and Questioned Costs

No Matters Were Reported.