

CANNONSBURG
WATER DISTRICT

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
for the year ended December 31, 2014

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John T. Lane and Associates, LLC
Certified Public Accountants
219 Young Lane, Suite 2
Mount Sterling, Kentucky 40353
(859) 498-9915
www.TheLaneCPA.com

Member:
American Institute of CPA's
Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Cannonsburg Water District
Cannonsburg, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Cannonsburg Water District as of and for the year ended December 31, 2014, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cannonsburg Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

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.

Management has elected to omit the Management's Discussion & Analysis which is required by the Governmental Accounting Standards Board.

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. 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.

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 the Cannonsburg 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-Matter

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cannonsburg Water District's financial statements as a whole. The Comparative Statement of Revenues and Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The Comparative Statement of Revenues and Expenses is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Comparative Statement of Revenues and Expenses has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

May 01, 2015

This report contains 12 pages.

Cannonsburg Water District
Statement of Net Position
Proprietary Fund Type
December 31, 2014

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 375,139
Cash and cash equivalents - restricted	782,874
Accounts receivable - net of allowance for doubtful accounts	261,324
Inventory	73,587
Prepaid expenses	<u>19,292</u>
Total Current Assets	<u>1,512,216</u>
Noncurrent Assets	
Capital assets: (note 1)	
Plant, equipment and lines	6,959,541
Construction in process	54,343
Less accumulated depreciation	<u>(3,742,787)</u>
Total Noncurrent Assets	<u>3,271,097</u>
Total Assets	<u>\$ 4,783,313</u>

LIABILITIES

Current Liabilities	
Accrued liabilities	\$ 227,817
Accrued interest	12,420
Deposits payable	13,851
Bonds/notes payable	<u>68,343</u>
Total Current Liabilities	<u>322,431</u>
Noncurrent Liabilities	
Bonds/notes payable	<u>271,000</u>
Total Liabilities	<u>593,431</u>

NET POSITION

Net investment in capital assets	2,931,754
Restricted	769,023
Unrestricted	<u>489,105</u>
Total Net Position	<u>\$ 4,189,882</u>

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

Cannonsburg Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund Type
For the fiscal year ended December 31, 2014

Operating Revenues	
Water sales	\$ 2,500,487
Penalties & charges	56,735
Other income	<u>8,574</u>
 Total Operating Revenues	 <u>2,565,796</u>
Operating Expenses	
Purchased water	1,179,041
Salaries & wages	396,708
Payroll taxes	28,261
Contractual services	23,962
Employee insurance	157,153
Retirement	78,815
Other insurance	45,271
Operations, maintenance, repairs & supplies	20,012
Utilities	60,003
Telephone	6,647
Materials & supplies	70,181
Fuel	25,086
Water testing	6,703
Depreciation	160,808
Other billing expenses	12,110
Bad debts	9,574
Water loss surcharge	138,537
Miscellaneous expenses	<u>51,731</u>
 Total Operating Expenses	 <u>2,470,603</u>
 Operating Income (Loss)	 <u>95,193</u>
Nonoperating Revenues (Expenses)	
Tap fees	31,100
Interest income	3,903
Interest expense	<u>(15,541)</u>
 Net Nonoperating Revenues (Expenses)	 <u>19,462</u>
 Change in Net Position	 114,655
 Total Net Position - beginning	 <u>4,075,227</u>
 Total Net Position - ending	 <u>\$ 4,189,882</u>

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

Cannonsburg Water District
Statement of Cash Flows
Proprietary Fund Type
December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 2,559,610
Cash paid to employees	(396,708)
Cash paid for general and administrative expenses	<u>(1,896,960)</u>
Net Cash provided/(used) by operating activities	<u>265,942</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	3,903
Customer deposits	<u>2,251</u>
Net Cash provided/(used) by investing activities	<u>6,154</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Tap fees	31,100
Bond/note payments	(39,000)
Loan proceeds	54,343
Purchase of assets	(91,835)
Interest paid	<u>(15,541)</u>
Net Cash provided/(used) in capital and financing activities	<u>(60,933)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	211,163
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>946,850</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 1,158,013</u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ 95,193
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
decrease in prepaid expenses	6,942
(increase) in inventory	(17,817)
depreciation	160,808
(increase) in accounts receivable	(6,186)
increase in accounts payable	<u>27,002</u>
Net cash provided/(used) by operating activities	<u>\$ 265,942</u>

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

CANNONSBURG WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

The Cannonsburg Water District is a water utility which services areas of Boyd County. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1961. The District began operations in 1956. The District is subject to the regulatory authority of the Kentucky Public Service Commission pursuant to KRS 278.040.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Cannonsburg Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are not other organizations included in these financial statements.

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2014 was \$56,000. The District had set aside \$276,265 into this fund at December 31, 2014.

Enterprise Funds

An enterprise fund distinguishes 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 the District's principal ongoing operations. The principal operating revenues of the District are operating grants and tenant rental revenue. Operating expenses of the District include the cost of producing the revenue 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.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded as an asset at that time. They are valued at lower of cost or market and recorded using the FIFO method.

Capital Assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Water lines, tanks	40-50 years
Equipment	5-10 years
Computers	3 years
Meters	15 years

The District's capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized: all others are expensed.

Net Position

Net position represents the difference between assets and liabilities. Invested in capital assets- net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

Accounts Receivable

The receivable reflected in the statements in the amount of \$261,324 are net of allowance for uncollectible in the amount of \$9,798.

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 at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2014, three separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A

Lender – USDA

Balance of loan - \$0

Rate - 5%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note B

Lender – KRWFC

Balance of loan – \$285,000

Rate – 4.15-5.15%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note C

Lender – Town Square Bank
 Balance of loan – \$54,343
 Rate – 3.25%
 Principal due April 21, 2015
 Interest due April 21, 2015

Five-Year Maturities	
2015	\$ 68,343
2016	15,000
2017	16,000
2018	17,000
2019	18,000
2020-2024	141,000
Thereafter	64,000
	<u>\$339,343</u>

The following is a summary of changes in long-term obligations for the year:

	Outstanding 1/1/2014	Issued	Retired	Outstanding 12/31/2014	Due Within One Year
USDA	\$ 25,000	\$ -	\$ 25,000	\$ -	\$ -
KRWFC	299,000	-	14,000	285,000	14,000
Town Square Bank	-	54,343	-	54,343	54,343
Total	<u>\$ 324,000</u>	<u>\$ 54,343</u>	<u>\$ 39,000</u>	<u>\$ 339,343</u>	<u>\$ 68,343</u>

Total interest paid during the year on long-term debt totaled \$15,541.

Note 3 - Pension Plan

The District provides pension benefits for its employees through the County Employees Retirement System (CERS). In this type of plan, the monthly retirement benefit is based upon several factors, primarily of which is the length of service, the systems benefit factor (2.5%), and the average of the five highest fiscal year wages from all public employees' retirement system participation (CERS, KERS, & SPRS). All employees who work an average of 100 hours per month over a fiscal year may participate with CERS.

The plan currently requires the District to contribute an amount equal to 18.89%/17.67% of the employee's base salary each month, with employees required to contribute 5%. The District's contribution will vary, depending on the dictates of the management of the county plan. The required employer's contribution is usually reviewed at least annually.

The District's total payroll in fiscal year 2014 was \$408,103 and its contributions were calculated using the base salary amount of \$341,255. Contributions to the plan were \$17,063 and \$62,710 by the employees and the District, respectively.

Note 4 - Changes in Capital Assets

The following is a summary of changes in the capital assets for the fiscal year:

	Balance 1/1/2014	Additions/ Transfers	Deletions	Balance 12/31/2014
Land, non-depreciable	\$ 20,810	\$ -	\$ -	\$ 20,810
Utility plant and equipment	6,782,512	156,219	-	6,938,731
Construction in process, non-depreciable	118,727	(64,384)		54,343
	<u>\$ 6,922,049</u>	<u>\$ 91,835</u>	<u>\$ -</u>	<u>\$ 7,013,884</u>
Acc. depreciation	<u>\$ 3,581,979</u>	<u>\$ 160,808</u>	<u>\$ -</u>	<u>\$ 3,742,787</u>
Capital assets, net of accumulated depreciation	<u>\$ 3,340,070</u>	<u>\$ (68,973)</u>	<u>\$ -</u>	<u>\$ 3,271,097</u>

Note 5 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account.

Note 6 - Restricted Cash

Restricted cash is composed of the following:

Depreciation reserve fund	\$	16,583
Bond & interest		276,265
Sur charge PSC		399,441
Line replacement		<u>90,585</u>
	\$	782,874

Note 7 – Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2014. Areas of noncompliance, if any, as a result of examinations would be included as a part of the “Findings and Responses section of this report.

Note 8 – Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

SUPPLEMENTAL INFORMATION

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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

Board of Commissioners
Cannonsburg Water District
Ashland, Kentucky

We have audited the financial statements of the business-type activities of the Cannonsburg Water District, as of and for the year ended December 31, 2014, and have issued our report thereon dated May 01, 2015. 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.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cannonsburg 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

This report is intended solely for the information and use of the audit committee, management, others within the organization and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

May 01, 2015

Cannonsburg Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund Type
For the fiscal years ended December 31, 2013 & December 31, 2014

	2013	2014
Operating Revenues		
Water sales	\$ 2,404,851	\$ 2,500,487
Penalties & charges	46,642	56,735
Other income	8,705	8,574
 Total Operating Revenues	 2,460,198	 2,565,796
Operating Expenses		
Purchased water	1,057,619	1,179,041
Salaries & wages	366,889	396,708
Payroll taxes	26,079	28,261
Contractual services	27,902	23,962
Employee insurance	164,196	157,153
Retirement	66,693	78,815
Other insurance	18,837	45,271
Operations, maintenance, repairs & supplies	23,159	20,012
Utilities	50,212	60,003
Telephone	6,094	6,647
Materials & supplies	72,525	70,181
Fuel	27,036	25,086
Water testing	5,287	6,703
Depreciation	153,910	160,808
Other billing expenses	10,493	12,110
Bad debts	26,480	9,574
Water loss surcharge	-	138,537
Miscellaneous expenses	43,089	51,731
 Total Operating Expenses	 2,146,500	 2,470,603
 Operating Income (Loss)	 313,698	 95,193
Nonoperating Revenues (Expenses)		
Capital grants	-	-
Nonoperating revenue - other	-	-
Tap fees	32,900	31,100
Interest income	4,307	3,903
Interest expense	(18,020)	(15,541)
 Net Nonoperating Revenues (Expenses)	 19,187	 19,462
 Change in Net Position	 \$ 332,885	 \$ 114,655

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