

CARROLL COUNTY WATER DISTRICT NO. 1

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

At December 31, 2014 and 2013

**CARROLL COUNTY WATER DISTRICT NO. 1
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Carroll County Water District No. 1
Ghent, Kentucky 41045

Report on the Financial Statements

We have audited the accompanying financial statements of Carroll County Water District No. 1 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Carroll County Water District No. 1, as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years 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 on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2015, on our consideration of the Carroll County Water District No. 1'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 Carroll County Water District No. 1's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 6, 2015

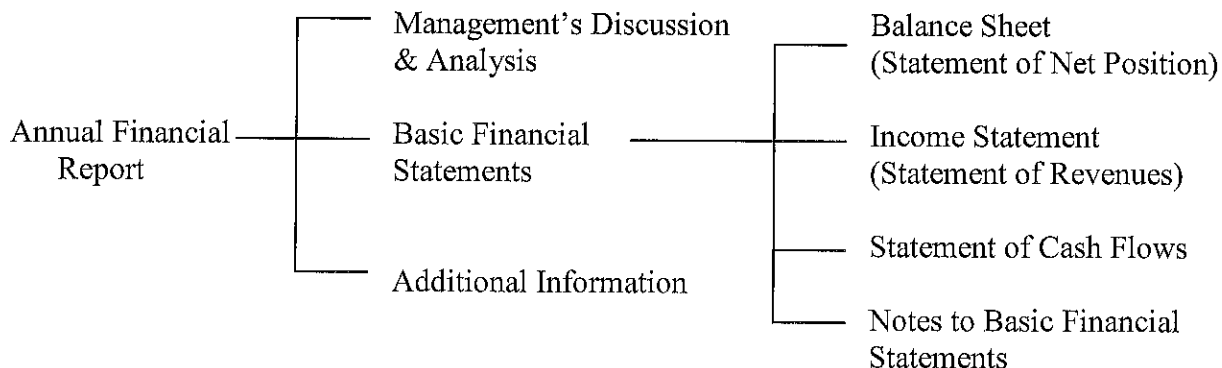


MANAGEMENT'S DISCUSSION AND ANALYSIS

This Discussion and Analysis of Carroll County Water District #1 financial performance provides an overview of the District's financial activities for the fiscal year ending December 31, 2014. It should be read in conjunction with the District's financial statements and supplementary information.

Financial Statements Overview

This annual financial report consists of three major parts: management's discussion and analysis, basic financial statements, and supplementary information. Included with the financial statement are notes that explain in more detail some of the information in the financial statements. Additional to these notes is a section of supplementary information in support of the information in the financial statements. The figure below illustrates how the annual financial report is arranged.



The Balance Sheet or Statement of Net Position includes all of the District's assets and liabilities and provides a basis for evaluating the overall health and financial flexibility of the District.

The Income Statement or the Statement of Revenues, Expenses, and Changes in Fund Net Position account for all the current year's revenues and expenses. This statement is a ready reflection of the success of the District's operations over the past year and shows at a glance whether or not the District has recovered all of its costs through its water rates and other charges.

The Statement of Cash Flows primary purpose is to provide information about the District's cash receipts, payments, and net changes in cash resulting from its operations, investing activities and financing activities and provides further information on the sources and uses of cash and the changes in the cash balances during the operating year.

Financial Highlights

- Total assets decreased by \$145,304 to \$12,787,878 in 2014. Increases in cash and restricted cash were offset by the reduction in fixed assets attributable to current year depreciation. Inventory decreased from 2013 due to installation of meters on hand at December 31, 2013 into the system.
- Operating Revenues increased by \$65,858 or 3.7% to \$1,856,478 in 2014. Water sales were up by \$47,876 and miscellaneous income was up by \$17,982, resulting in this additional revenue.
- Operating Expenses were up \$151,227 in 2014 when compared to 2013. This increase is due to distribution system damages incurred during the polar vortex weather, rehab of the Gallatin WTP, EPA's No Lead in brass rule and the enhancements to the distribution system such as flow meters and addition of SCADA points.
- Net Income before Capital Contributions for 2014 as compared to the previous year was down \$63,271. This is primarily due to the fall out of higher operating expense due to the abnormal weather and system improvements.

Balance Sheet, Statement of Net Position

Changes in Net Position in 2014 are attributed to the increase in cash restricted for debt service and increased inventory, and principal payments made on long term debt.

	2014	2013	2012	Difference 14-13	%
Utility Plant	\$9,934,602	\$10,297,046	\$10,657,406	(362,444)	3.5
Current Assets	\$1,805,749	\$1,684,882	\$ 1,574,505	120,867	7.2
Other Non-Current Assets	\$1,047,527	\$ 951,254	\$ 762,005	96,273	10.1

Long Term Liabilities at year-end 2014 are down due to retirement of debt per amortization schedules. Current liabilities show a 1.3% increase compared to year-end 2013. The small increase in current liabilities at year's end is due primarily to an increase in accounts payable.

Other changes are due to a modest increase of accrued compensation and wages.

	2014	2013	2012	Difference 14-13	%
Long Term Liabilities	6,465,843	\$6,701,314	\$6,938,425	(235,471)	3.5
Current & Accrued Liabilities	408,994	\$403,840	\$493,214	5,154	1.3

Total Net Position

Total Net Position as shown below is up \$87,317 due to the net income of the District.

	2014	2013	2012	Difference 14-13	%
Total Net Position	5,910,602	\$5,823,285	\$ 5,555,231	87,317	1.5

Income Statement

Operating Revenues for 2014 increased when compared to 2013 with water sales and both miscellaneous revenue being up. The Special Item income/expense was \$85,331 for the year of 2014 which resulted in no change since it was a total reimbursement project costs. The work was related to relocation of water lines throughout the year with Kentucky Department of Transportation. The Net Income for the year was down by \$180,737 due to investing back into the Water District and reduced capital contributions.

	2014	2013	2012	Difference (14-13)	%
Operating Revenue	\$1,856,478	\$1,790,620	\$1,809,751	65,858	3.7
Operating Expense	\$1,609,887	\$1,458,660	\$1,491,635	151,227	10.4
Net Operating Revenue	\$246,591	\$ 331,960	\$ 318,116	(85,369)	25.7
Non-Operating Expenses	\$180,463	\$ 202,561	\$ 485,591	22,098	10.9
Capital Contributions	\$21,189	\$ 138,655	\$ 207,562	(117,466)	84.7
Special Item	-	-	-	-	-
Net Income	\$87,317	\$ 268,054	\$ 40,087	(180,737)	67.4

Statement of Cash Flows

Cash from Operating Activities was down slightly during the year at 2.8% when compared to 2013. This is attributable to increased sales offset by additional repairs incurred due to the extreme weather. The increase in Cash at Year End 2014 is more than 8.5% due to increased sales from more consumption and increased accuracy of meters and collection of miscellaneous charges.

	2014	2013	2012	Difference (14-13)	%
Cash from Operating Activities (Net)	\$734,314	\$ 755,251	\$ 744,227	(20,937)	2.8
Cash from Non-Capital Financing Activities	\$11,508	\$ 46	\$(111,764)	11,462	
Cash from Capital & Related Financing Activities	\$(504,743)	\$(509,201)	\$(439,865)	4,458	0.9
Cash From Investing Activities	\$(119,537)	\$ 1,230	\$ 1,661	(120,767)	98.2
Change in Cash	\$121,542	\$ 247,326	\$ 194,259	125,784	50.9
Cash Balance, Beginning of Year	\$1,427,585	\$1,180,259	\$ 986,000	247,326	21
Cash Balance, End of Year	\$1,549,127	\$1,427,585	\$1,180,259	121,542	8.5

Debt Administration

As of year's end 2014 the District had outstanding Bond debt of \$5,589,500, and a Note Payable of \$1,095,377 for a total of \$6,684,877 in Long Term Debt. The funds available for Debt Service in 2014 were more than sufficient to cover debt payments without pulling down cash. The Debt Coverage Ratio for 2014 was 1.48, a level that is sufficient not only to pay debt but also allow sufficient allocation to Depreciation and other capital improvement projects.

Carroll County Water District #1
December 31, 2014

	2014	2013	2012	Difference (14-13)	%
Total Bonds Payable	\$5,589,500	\$5,735,500	\$5,982,000	(146,000)	2.5
Note Payable	\$1,095,377	\$1,188,028	\$1,277,961	(92,651)	7.8
Income Available for Debt Service	\$704,297	\$796,487	\$782,159	(92,190)	11.6
Total Debt Service	\$476,157	\$585,713	\$584,828	(109,556)	18.7
Debt Coverage	1.48	1.36	1.34	.12	8.8

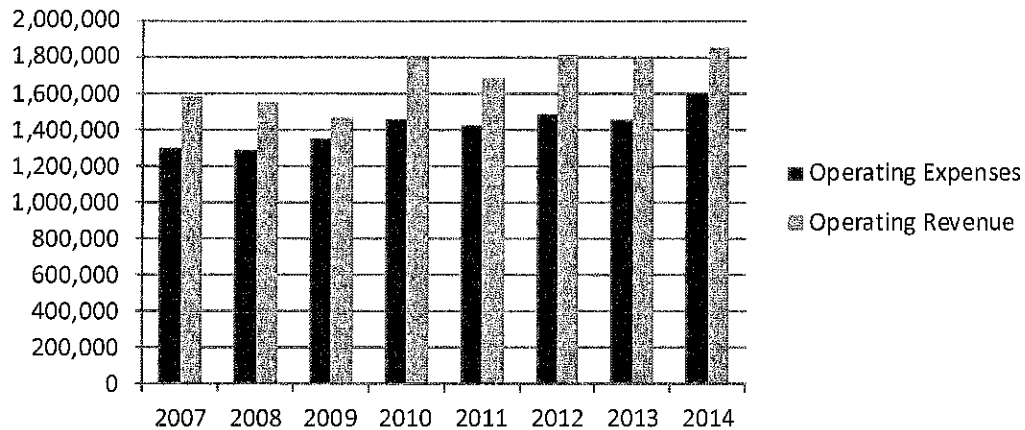
Economic Outlook

No significant growth or decline in water sales is expected in 2015. The two diagrams on the next page are offered to give a picture of the relative health of the Water District. The graph of the Operating Expenses including Depreciation versus Operating Revenue presents a view of monies remaining to cover debt after Operating Expenses have been paid. You will note the numbers for 2014 reflect a comfortable level in Revenue versus Expenses as was expected for this particular year. The graph titled Operating Ratio depicts Total Operation Expenses less Depreciation divided by Total Revenues and is a measure of overall efficiency of the District. Management feels that trends in this Operating Ratio reflect the health of the District. In the healthiest operations this ratio will remain constant or reduce over time. You will note a large increase in this ratio for the year 2014 but is still at a very healthy level. The facts portrayed by these two charts along with a comfortable Debt Coverage Ratio reflect a healthy District. The District is participating with Carrollton Utilities in a Carroll County Interconnect Project and a Focus Project. This will result in a new Debt Service to Carrollton Utilities of approximately \$362,251 subject to 0.75% interest rate with 25% forgiveness on the first project which is now under construction. The Focus on Core Mission & Infrastructure Project will result in a small debt service of \$193,375 subject to 0.75% interest with 50% loan forgiveness. The District's portion of the Focus project consists of replacing several locations of the first telemetry sites and upgrade of the central unit. Some of which will be non-repairable since parts are no longer manufactured. As noted of the two new incoming small debt services both with forgiveness monies, one of the existing District's loan was paid off at the end of 2014.

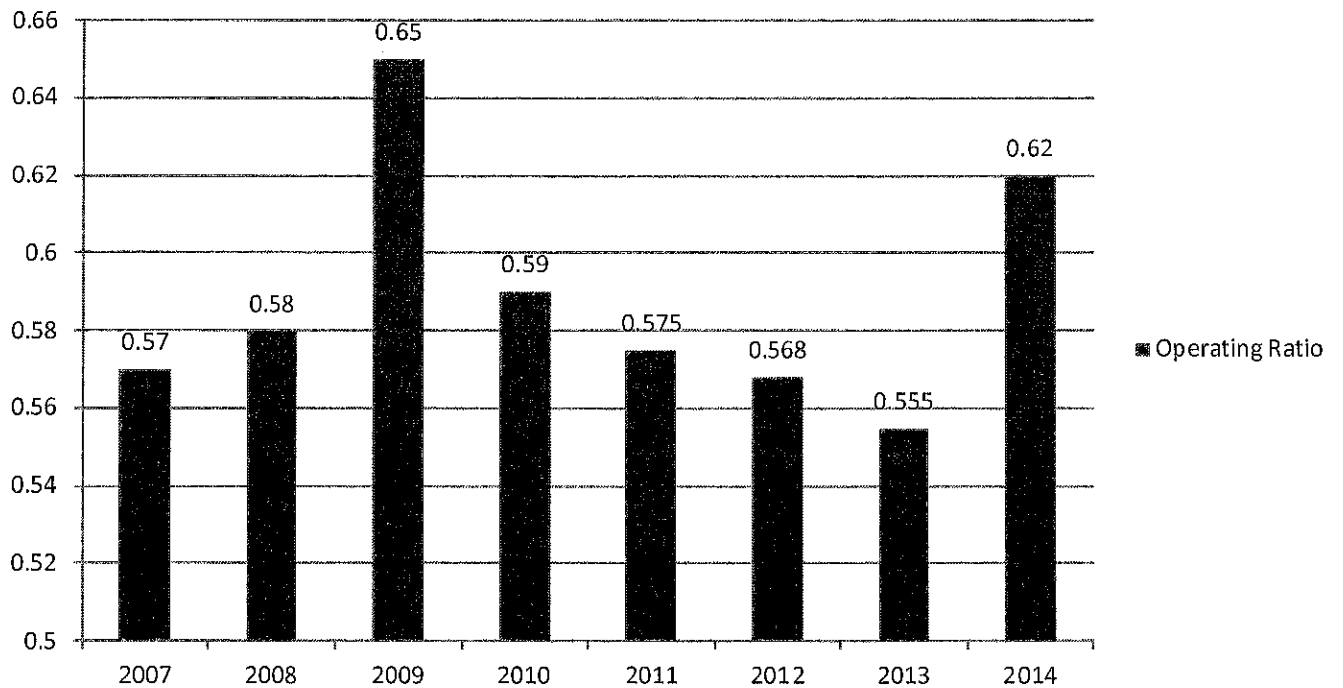
Contacting District Management

This financial report is designed to provide an easy to read general overview of the District's finances to its ratepayers, creditors, or public at large. It also provides accountability for the money received by the district. Questions concerning this report may be directed to the Manager of the District at 205 Main Cross Street in Ghent, Kentucky 41045, phone 502-347-9500.

Operating Expenses vs Operating Revenue



Operating Ratio



CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF NET POSITION
December 31, 2014 and 2013

ASSETS	2014	2013
Current Assets:		
Cash, Including Time Deposits	\$ 1,455,396	\$ 1,299,691
Accounts Receivable (Net)	166,004	167,562
Other Receivables	95	14,573
Inventory	144,864	163,460
Prepaid Expense	39,390	39,596
Total Current Assets	<u>\$ 1,805,749</u>	<u>\$ 1,684,882</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 1,047,334	\$ 951,130
Interest Receivable	93	24
Capital Assets (Net)	9,934,602	10,297,046
Deposits	100	100
Total Noncurrent Assets	<u>\$10,982,129</u>	<u>\$11,248,300</u>
Total Assets	<u>\$12,787,878</u>	<u>\$12,933,182</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 40,827	\$ 35,676
Accounts Payable - Capital Assets	2,281	4,636
Accrued Compensated Absences	29,053	26,030
Accrued Wages	6,365	5,388
Accrued Payroll Taxes/Employee Withholding	10,294	13,007
Utility Tax Payable	4,509	4,164
Sales Tax Payable	3,215	2,832
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	74,999	73,456
Revenue Bonds Payable	142,000	146,000
Note Payable-Kentucky Infrastructure Authority	95,451	92,651
Total Current Liabilities	<u>\$ 408,994</u>	<u>\$ 403,840</u>
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 5,447,500	\$ 5,589,500
Note Payable - Kentucky Infrastructure Authority	999,926	1,095,377
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	18,417	16,437
Total Noncurrent Liabilities	<u>\$ 6,465,843</u>	<u>\$ 6,701,314</u>
Total Liabilities	<u>\$ 6,874,837</u>	<u>\$ 7,105,154</u>
DEFERRED INFLOWS OF RESOURCES		
Unamortized Bond Premiums	\$ 2,439	\$ 4,743
Total Deferred Inflows of Resources	<u>\$ 2,439</u>	<u>\$ 4,743</u>
NET POSITION		
Net Investment in Capital Assets	\$ 3,247,286	\$ 3,368,775
Restricted for Capital Projects	7,001	6,972
Restricted for Debt Service	947,010	854,289
Unrestricted	<u>1,709,305</u>	<u>1,593,249</u>
Total Net Position	<u>\$ 5,910,602</u>	<u>\$ 5,823,285</u>

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2014 and 2013

Operating Revenues:	2014	2013
Charges for Services:		
Water Charges (Net)	\$ 1,759,021	\$ 1,711,160
Bulk Water Charges	66	51
Total Charges for Services	<u>\$ 1,759,087</u>	<u>\$ 1,711,211</u>
Other Charges and Miscellaneous:		
Billing Service Charges	\$ 46,766	\$ 40,998
Reconnect and Disconnect Charges	48,600	36,240
Miscellaneous	2,025	2,171
Total Other Charges and Miscellaneous	<u>\$ 97,391</u>	<u>\$ 79,409</u>
Total Operating Revenues	<u>\$ 1,856,478</u>	<u>\$ 1,790,620</u>
Operating Expenses:		
Accounting and Collecting Labor	\$ 93,667	\$ 97,976
Administrative Per Diem	16,200	16,200
Administrative Salaries	113,176	106,571
Depreciation Expense	457,706	464,527
Employee Benefits	45,405	44,197
Employee Licenses	410	50
Insurance	33,346	30,127
Maintenance of Mains/Distribution System	260,082	138,853
Office Supplies and Expense	41,591	45,077
Operating Labor	197,791	184,447
Other Interest Expense	85	223
Payroll Taxes	30,555	29,515
Professional Services	13,099	11,899
Purchased Power	152,277	142,854
Purchased Water	11,027	9,696
Regulatory Fees	3,534	3,473
Repairs & Maintenance	12,566	6,573
Retirement Plan Expense	69,870	70,791
Transportation Expense	29,085	33,053
Uniforms	6,390	5,654
Utilities & Telephone	11,645	9,560
Water Treatment Expense	10,380	7,344
Total Operating Expenses	<u>\$ 1,609,887</u>	<u>\$ 1,458,660</u>
Operating Income	<u>\$ 246,591</u>	<u>\$ 331,960</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 10,970	\$ 5,330
Interest Expense	(237,594)	(231,523)
Gain (Loss) on Sale/Abandonment of Fixed Assets	46,161	23,632
Total Nonoperating Revenue (Expense)	<u>\$ (180,463)</u>	<u>\$ (202,561)</u>
Net Income (Loss) Before Contributions & Special Items	<u>\$ 66,128</u>	<u>\$ 129,399</u>
Capital Contributions	<u>21,189</u>	<u>138,655</u>
Special Item		
Industrial & Department of Transportation Line Relocation Projects		
Income	\$ 85,331	\$ 87,282
Expense	(85,331)	(87,282)
Total Special Item	<u>\$ -</u>	<u>\$ -</u>
Change in Net Position	<u>\$ 87,317</u>	<u>\$ 268,054</u>
Net Position--Beginning of Year	<u>5,823,285</u>	<u>5,555,231</u>
Net Position--End of Year	<u><u>\$ 5,910,602</u></u>	<u><u>\$ 5,823,285</u></u>

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,861,255	\$ 1,805,223
Payments to Suppliers	(247,156)	(210,980)
Payments to Employees	(416,834)	(399,271)
Other Receipts (Payments)	(462,951)	(439,721)
Net Cash Provided (Used) by Operating Activities	<u>\$ 734,314</u>	<u>\$ 755,251</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds Line Relocations	\$ 99,369	\$ 84,798
Costs Associated with Line Relocations	(87,861)	(84,752)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>\$ 11,508</u>	<u>\$ 46</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 9,360	\$ 17,203
Purchase of Capital Assets (including Work in Process)	(55,006)	(85,317)
Principal Paid on Capital Debt	(238,651)	(336,433)
Interest Paid on Capital Debt	(238,355)	(249,280)
Grant Proceeds	-	125,385
Proceeds Build America Bonds Interest Reimbursement	11,829	12,353
Proceeds Sale of Capital Assets	6,080	6,888
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (504,743)</u>	<u>\$ (509,201)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	\$ (130,367)	\$ (4,187)
Interest Received	10,830	5,417
Net Cash Provided (Used) by Investing Activities	<u>\$ (119,537)</u>	<u>\$ 1,230</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 121,542	\$ 247,326
Balances-Beginning of the Year	<u>1,427,585</u>	<u>1,180,259</u>
Balances-End of the Year	<u><u>\$ 1,549,127</u></u>	<u><u>\$ 1,427,585</u></u>

	Balances Per December 31, 2014 Statement of Net Position	Balances Per December 31, 2014 Statement of Cash Flows
Cash	\$ 956,330	\$ 956,330
Time Deposits	499,066	-
Restricted Cash	592,797	592,797
Restricted Time Deposits	454,537	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 2,502,730</u>	<u>\$ 1,549,127</u>

	Balances Per December 31, 2013 Statement of Net Position	Balances Per December 31, 2013 Statement of Cash Flows
Cash	\$ 805,350	\$ 805,350
Time Deposits	494,341	-
Restricted Cash	622,235	622,235
Restricted Time Deposits	328,895	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 2,250,821</u>	<u>\$ 1,427,585</u>

CARROLL COUNTY WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 246,591	\$ 331,960
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	457,706	464,527
Change in Assets and Liabilities:		
Receivables, Net	1,558	13,842
Other Receivables	511	(511)
Inventories	18,596	(72,267)
Prepaid Expenses	206	(3,066)
Accounts Payable	5,151	12,902
Accrued Wages	977	162
Utility Tax Payable	345	159
Sales Tax Payable	383	(427)
Accrued Payroll Taxes & Employee Benefits	(2,713)	669
Customer Meter Deposits Payable	1,980	1,540
Accrued Compensated Absences	3,023	5,761
Net Cash Provided by Operating Activities	<u>\$ 734,314</u>	<u>\$ 755,251</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2014, Carroll County Water District No. 1 had outstanding obligations relating to the acquisition of plant assets of \$2,281 included in accounts payable - capital assets.

At December 31, 2013, Carroll County Water District No. 1 had outstanding obligations relating to the acquisition of plant assets of \$4,636 included in accounts payable - capital assets.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Description of entity: Carroll County Water District No. 1 is a rural water company serving approximately 3,000 customers in Carroll, Owen and Gallatin Counties, Kentucky of which 169 are considered commercial and 30 are industrial users, or large users. The District is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of Carroll County through its fiscal court in 1960 and began operations in 1965.

In evaluating how to define Carroll County Water District No. 1 for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (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.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets plus deferred outflows net of total liabilities and deferred inflows) are segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by bond agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory: Inventories are stated at latest cost.

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Structures & Improvements	10-35 years
- Distribution System	10-45 years
- Wells	35 years
- Machinery & Equipment	5-30 years

Debt Issuance Costs: Such costs are expensed as incurred.

Compensated Absences: See Note 9 for the District's policy on vacation and sick pay.

Deferred Outflows and Deferred Inflows

Deferred Outflows and Deferred Inflows are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

Income Taxes: The Carroll County Water District No. 1 is not subject to income taxes.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. Tap on fees of \$9,360 and \$17,203 were received by the District for the years ended December 31, 2014, and 2013, respectively. Additional capital contributions of \$11,829 Build America Bond interest reimbursements were received by the District during the year ended December 31, 2014. Additional capital contributions of \$109,099 Kentucky Grant Funds and \$12,353 Build America Bonds interest reimbursements were received by the District during the year ended December 31, 2013.

Net position: Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements 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.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Carroll County Water District No. 1 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was to be established with the District's original bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the outstanding bond issues is as follows:

$$\begin{array}{rcl} & \text{one sixth (1/6) of the next semiannual interest payment} & \\ + & \text{one twelfth (1/12) of next annual principal payment} & \\ = & \text{monthly transfer} & \end{array}$$

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2014 and 2013.

Under the bond resolution of the original 1965 bonds (now redeemed), a Depreciation Account was to be established to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. Under the provisions of the 1994 Bond Resolution, an adjustment was required to be made in the Depreciation Fund requirements upon the issuance of any bonds on a parity with the Series 1994 bonds. Therefore, with the issuance of subsequent bonds, additional transfer requirements were established as follows:

<u>Series</u>	<u>Transfer Due</u>	<u>Accumulation Required</u>
1999 A & B	\$2,090/month	\$250,800
2005 A & B	525/month	63,000
2010	510/month	61,200
Total		<u>\$375,000</u>

The 1994, 1997 A & B, and 1999 Series A & B issues were refunded with the issuance of the 2012B Bond Issue. The issue of 2012 ratified and confirmed the transfers required above to continue in force.

When the required balance of \$375,000 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. The Depreciation Account is to be maintained as long as any of the bonds are outstanding.

Under the District's debt agreement with the Kentucky Infrastructure Authority (KIA) a R&M Reserve is to be funded. \$7,500 is to be transferred annually into the reserve until a balance of \$75,000 is obtained.

A separate reserve has not been established for the Kentucky Infrastructure Authority reserve. However, the District has funded reserve accounts sufficient to fund the maximum accumulation mandated in the 1999 bond agreement plus the KIA's required balance at December 31, 2014. The District transferred the monthly amounts required under the Series 2005 A and B bond agreement, and the additional \$510 payment required by the 2010 Series bond agreement during 2014.

After the required monthly transfers to the respective bond and interest account, and depreciation account, a transfer of one-twelfth (1/12) of the annual budgeted expenditures for the District is to be transferred to an operation and maintenance account for making expenditures for the District. Sixty days following year end, all remaining funds in the revenue account in excess of two (2) months operating budget requirements are to be transferred to the depreciation account.

The District has not set up a separate revenue account. At December 31, 2013, \$160,824 was calculated as the required transfer to be made and has been considered restricted. At December 31, 2014, \$23,833 was calculated as the required transfer to be made and has been considered restricted.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities, including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 3 – CASH AND INVESTMENTS (Continued)

Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2014 and 2013, in accordance with the District's policy, \$603,576 and \$694,889 respectively, of the District's deposits were covered by federal depository insurance and \$1,899,054 and \$1,555,832 respectively, were collateralized by securities held by the pledging financial institution's agent in the District's name. Thus the District had no deposits that were exposed to custodial credit risk.

At December 31, 2014 and 2013, the District's deposits were as follows:

December 31, 2014

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,596,538	\$ 1,549,026
Time/Savings Deposits	953,604	953,604
Total Deposits	<u>\$ 2,550,142</u>	<u>\$ 2,502,630</u>

December 31, 2013

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,553,062	\$ 1,427,486
Time/Savings Deposits	823,235	823,235
Total Deposits	<u>\$ 2,376,297</u>	<u>\$ 2,250,721</u>

Reconciliation to Statement of Net Position:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Unrestricted Cash	\$ 1,455,396	\$ 1,299,691
Restricted Cash, Including Time Deposits	1,047,334	951,130
Less: Cash on Hand	(100)	(100)
	<u>\$ 2,502,630</u>	<u>\$ 2,250,721</u>

NOTE 4 – RESTRICTED ASSETS

Restricted assets consists of the following:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Restricted Cash and Time Deposits		
Bond and Interest Sinking Account	\$ 343,374	\$ 329,411
Depreciation Reserve Account	678,542	598,310
Customer Deposits	18,417	16,437
Construction	7,001	6,972
Total	<u>\$ 1,047,334</u>	<u>\$ 951,130</u>
Interest Receivable - Depreciation Reserve Accounts	<u>\$ 93</u>	<u>\$ 24</u>

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$2,489 and \$3,324 at December 31, 2014 and 2013, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 6 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full) or one year pending a satisfactory payment record. Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current market rate. Accrued interest is paid annually and when the deposit is refunded.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2014 and 2013, was as follows:

	Balance at January 1, 2014	Additions	Disposals	Balance at December 31, 2014
Land & Land Rights	\$ 277,816	\$ -	\$ -	\$ 277,816
Structures & Improvements	318,245	-	-	318,245
Distribution System	14,126,487	59,072	(32,999)	14,152,560
Wells	525,978	-	-	525,978
Machinery & Equipment	647,969	34,062	(691)	681,340
Construction in Process	11,124	4,234	(2,106)	13,252
Totals at Historical Cost	<u>\$ 15,907,619</u>	<u>\$ 97,368</u>	<u>\$ (35,796)</u>	<u>\$ 15,969,191</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 123,075	\$ 8,701	\$ -	\$ 131,776
Distribution System	4,813,531	406,521	(32,999)	5,187,053
Wells	244,730	15,028	-	259,758
Machinery & Equipment	429,237	27,456	(691)	456,002
Total Accumulated Depreciation	<u>\$ 5,610,573</u>	<u>\$ 457,706</u>	<u>\$ (33,690)</u>	<u>\$ 6,034,589</u>
Capital Assets, Net	<u>\$ 10,297,046</u>	<u>\$ (360,338)</u>	<u>\$ (2,106)</u>	<u>\$ 9,934,602</u>
	Balance at January 1, 2013	Additions	Disposals	Balance at December 31, 2013
Land & Land Rights	\$ 277,816	\$ -	\$ -	\$ 277,816
Structures & Improvements	318,245	-	-	318,245
Distribution System	14,110,650	112,122	(96,285)	14,126,487
Wells	525,978	-	-	525,978
Machinery & Equipment	625,274	22,695	-	647,969
Construction in Process	-	11,124	-	11,124
Totals at Historical Cost	<u>\$ 15,857,963</u>	<u>\$ 145,941</u>	<u>\$ (96,285)</u>	<u>\$ 15,907,619</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 114,136	\$ 8,939	\$ -	\$ 123,075
Distribution System	4,460,245	407,797	(54,511)	4,813,531
Wells	229,702	15,028	-	244,730
Machinery & Equipment	396,474	32,763	-	429,237
Total Accumulated Depreciation	<u>\$ 5,200,557</u>	<u>\$ 464,527</u>	<u>\$ (54,511)</u>	<u>\$ 5,610,573</u>
Capital Assets, Net	<u>\$ 10,657,406</u>	<u>\$ (318,586)</u>	<u>\$ (41,774)</u>	<u>\$ 10,297,046</u>

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 7 – CAPITAL ASSETS (Continued)

Included under the District's Plant Assets at December 31, 2014 and 2013, respectively, were \$878,584 and \$438,929 of fully depreciated assets. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$457,706 and \$464,527 in 2014 and 2013, respectively.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2014 and 2013, the long-term debt payable consisted of the following:

Notes Payable:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Kentucky Infrastructure Authority represents a 20 year loan, original principal of \$1,908,662, secured by water revenues. Interest is charged at 3% per annum. Payments are made semi-annually. Final maturity is December 1, 2024.	\$ 1,095,377	\$ 1,188,028
Total Notes Payable	<u>\$ 1,095,377</u>	<u>\$ 1,188,028</u>
Current Portion	\$ 95,451	\$ 92,651
Noncurrent Portion	999,926	1,095,377
Total Notes Payable	<u>\$ 1,095,377</u>	<u>\$ 1,188,028</u>

Bonds Payable:

Kentucky Rural Water Finance Corporation, Flexible Term Finance Program, Series 2005 C, original issue amount of \$829,000, secured by water revenues. Interest is charged at the rate of 4.03% per annum. Final maturity is January 1, 2015. All funds on deposit for payoff in Bond Account.

\$	-	\$	10,000
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RECD Revenue Bonds of 2005 Series A, original issue amount of \$592,000, secured by water revenues. Interest is charged at the rate of 4.375% per annum. Final maturity is September 1, 2044.

532,000	541,000
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RECD Revenue Bonds of 2005 Series B, original issue amount of \$319,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is September 1, 2044.

285,500	290,500
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RECD Revenue Bonds of 2010, (Build America Bonds – Direct Payment), original issue amount of \$1,246,000, secured by water revenues. Interest is charged at the rate of 3% per annum. Final maturity is September 1, 2049.

1,197,000	1,214,000
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Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program) Series 2012 (B), original issue (District Share) \$3,785,000, secured by water revenues. Interest is charged at the rates of 2.2% - 4.2% per annum. Final maturity is January 1, 2039.

3,575,000	3,680,000
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Total Bonds Payable

\$	5,589,500	\$	5,735,500
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CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 8 – LONG-TERM DEBT

Bonds Payable:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Current Portion	\$ 142,000	\$ 146,000
Noncurrent Portion	5,447,500	5,589,500
Total Bonds Payable	<u>\$ 5,589,500</u>	<u>\$ 5,735,500</u>

Accrued Compensated Absences:

Current Portion	\$ 29,053	\$ 26,030
Noncurrent Portion	-	-
Total Accrued Compensated Absences	<u>\$ 29,053</u>	<u>\$ 26,030</u>

Bonds Payable – U.S. Department of Agriculture – Rural Development, Series 2010

On November 11, 2010, the Carroll County Water District No. 1 issued \$1,246,000 Taxable Waterworks Revenue Bonds, Series 2010 with an interest rate of 3%. The proceeds were used to finance the 2007 water system improvement project. The first interest payment was due March 1, 2011. The first principal payment was due September 1, 2012. The final payment will be due September 1, 2049. These bonds are taxable Build America Bonds. As such, the District will receive annual federal credit payments toward the debt service of approximately 35% of each interest payment due. The credit will amount to \$319,024 over the life of the issue.

Bonds Payable-Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2005 C

On October 19, 2005 Carroll County Water District No. 1 entered into an \$829,000 bond agreement with Kentucky Rural Water Finance Corporation. The proceeds of the bonds were used to redeem the District's then outstanding lease with U.S. Bank (principal, interest, and 3% redemption premium as required) on November 1, 2005.

The total cash flow required to service the (old) 1992 lease was \$1,100,322. This exceeded the cash flow required to service the new issue of \$997,058 by \$103,265. The economic gain to the District was \$75,249 as calculated on a present value basis.

Bonds Payable – Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2012 B

On March 28, 2012, Carroll County Water District No. 1 issued \$3,785,000, Series 2012 B Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds with interest rates of 2.2% - 4.2% to advance refund \$422,000, Series 1994; \$920,000, Series 1997 A; \$1,018,000 Series 1997 B; \$610,000, Series 1999 A; and \$706,000, Series 1999 B revenue bonds outstanding. The 1994 and 1999 A & B Series were originally issued at 4.5%. The 1997 A & B Series were issued at 4.875%. The refunded bonds were redeemed on March 30, 2012 at a price equal to 100% of the principal amount of the refunded bonds outstanding at that date. Bond issuance costs were \$132,689.

As a result of the advance refunding, the District reduced its total debt service requirements by \$526,506, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$312,668. Final maturity on the 2012 issue is January 1, 2039.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2014 and 2013.

December 31, 2014

	Balance at January 1, 2014	Additions	Retirements	Balance at December 31, 2014	Current Portion
Notes Payable	\$ 1,188,028	\$ -	\$ (92,651)	\$ 1,095,377	\$ 95,451
Bonds Payable	5,735,500	-	(146,000)	5,589,500	142,000
Accrued Compensated Absences	26,030	3,023	-	29,053	29,053
Total Enterprise Fund Debt	<u>\$ 6,949,558</u>	<u>\$ 3,023</u>	<u>\$ (238,651)</u>	<u>\$ 6,713,930</u>	<u>\$ 266,504</u>

December 31, 2013

	Balance at January 1, 2013	Additions	Retirements	Balance at December 31, 2013	Current Portion
Notes Payable	\$ 1,277,961	\$ -	\$ (89,933)	\$ 1,188,028	\$ 92,651
Bonds Payable	5,982,000	-	(246,500)	5,735,500	146,000
Accrued Compensated Absences	20,269	5,761	-	26,030	26,030
Total Enterprise Fund Debt	<u>\$ 7,280,230</u>	<u>\$ 5,761</u>	<u>\$ (336,433)</u>	<u>\$ 6,949,558</u>	<u>\$ 264,681</u>

The annual requirements for all long-term debt outstanding at December 31, 2014, are as follows:

Due	Note Payable	Note Payable Interest	Service Fee	Bonds	Bonds Interest	Trustee Fee	Federal Credit Interest Payment	Total Principal, Interest, Trustee Fee & Servicing Fee
2015	\$ 95,451	\$ 32,151	\$ 2,679	\$ 142,000	\$ 182,746	\$ 450	\$ 12,569	\$ 468,046
2016	98,336	29,266	2,439	142,000	179,374	450	12,380	464,245
2017	101,309	26,293	2,191	144,500	175,940	450	12,191	462,874
2018	104,370	23,231	1,936	150,500	171,854	450	11,991	464,332
2019	107,525	20,077	1,673	157,000	166,976	450	11,780	465,481
2020-2024	588,386	49,625	4,135	867,000	755,610	2,250	55,556	2,322,562
2025-2029	-	-	-	1,026,000	603,645	2,250	49,193	1,681,088
2030-2034	-	-	-	1,209,000	403,746	2,250	41,580	1,656,576
2035-2039	-	-	-	1,037,000	177,201	2,250	32,487	1,248,938
2040-2044	-	-	-	443,500	59,052	-	21,640	524,192
2045-2049	-	-	-	271,000	16,378	-	8,373	295,751
	<u>\$ 1,095,377</u>	<u>\$ 180,643</u>	<u>\$ 15,053</u>	<u>\$ 5,589,500</u>	<u>\$ 2,892,522</u>	<u>\$ 11,250</u>	<u>\$ 269,740</u>	<u>\$ 10,054,085</u>

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt (Continued)

The annual requirements for all long-term debt outstanding at December 31, 2013, are as follows:

Due	Note Payable	Note Payable Interest	Service Fee	Bonds	Bonds Interest	Trustee Fee	Federal Credit Interest Payment	Total Principal, Interest, Trustee Fee & Servicing Fee
2014	\$ 92,651	\$ 34,951	\$ 2,913	\$ 146,000	\$ 186,445	\$ 450	\$ 12,747	\$ 476,157
2015	95,451	32,151	2,679	142,000	182,746	450	12,569	468,046
2016	98,336	29,266	2,439	142,000	179,374	450	12,380	464,245
2017	101,309	26,293	2,191	144,500	175,940	450	12,191	462,874
2018	104,370	23,231	1,936	150,500	171,854	450	11,991	464,332
2019-2023	571,124	66,887	5,573	840,000	782,567	2,250	56,700	2,325,101
2024-2028	124,787	2,815	235	991,000	637,140	2,250	50,558	1,808,785
2029-2033	-	-	-	1,192,000	447,918	2,250	43,208	1,685,376
2034-2038	-	-	-	1,134,000	218,572	2,250	34,440	1,389,262
2039-2043	-	-	-	489,500	73,795	450	23,971	587,716
2044-2048	-	-	-	309,000	21,265	-	11,445	341,710
2049	-	-	-	55,000	1,361	-	287	56,648
	<u>\$ 1,188,028</u>	<u>\$ 215,594</u>	<u>\$ 17,966</u>	<u>\$ 5,735,500</u>	<u>\$ 3,078,977</u>	<u>\$ 11,700</u>	<u>\$ 282,487</u>	<u>\$ 10,530,252</u>

NOTE 9 – COMPENSATED ABSENCES

Employees receive one half sick day per month for sick time. A maximum of six months sick leave can be accumulated. Unused sick time accumulated is added to service time at retirement from the District. Vacation days accumulate as follows:

At the end of 1st year	-	1 week
At the end of 3rd year	-	2 weeks
At the end of 10th year	-	3 weeks
At the end of 15th year	-	4 weeks

Unused vacation may be carried into the next calendar year.

The District accrues a liability for compensated absences which meet the following criteria:

1. The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, (included in current accrued compensated absences) the District accrues a liability for sick pay which has been earned but not taken by District employees of retirement age. However, no employees were eligible for retirement at December 31, 2014 and 2013, respectively. Sick leave accumulated but not accrued at December 31, 2014 and 2013 was \$28,616 and \$21,302, respectively. At December 31, 2014 and 2013, a liability for accrued vacation due was recorded in the amount of \$29,053 and \$26,030, respectively.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Restricted Capital Projects:		
Monies Reserved for Future Construction	\$ 7,001	\$ 6,972
Total Restricted for Capital Projects	<u>\$ 7,001</u>	<u>\$ 6,972</u>
Restricted for Debt Service:		
RECD Revenue Bonds of 2005 Series A, B & C, 2010 Series, Kentucky Rural Water Refunding Revenue Bonds, Series 2012 B and Kentucky Infrastructure Authority Note Payable		
Cash	\$ 1,021,916	\$ 927,721
Add: Accrued Interest Receivable	93	24
Less: Accrued Interest Payable	(74,999)	(73,456)
Total Restricted for Debt Service	<u>\$ 947,010</u>	<u>\$ 854,289</u>

NOTE 11 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2014 and 2013 was \$237,679 and \$231,746, respectively. No interest was capitalized in 2014 or 2013.

NOTE 12 – THE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the Commissioners. Electing employees and all new employees of the District may participate in the System. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2014. Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will also be available to Legislative personnel and state libraries.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year.

Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted.

Contributions – For the fiscal years ended June 30, 2014, and 2013, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2014 and 2013, participating employers contributed 18.89% and 19.55%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2014 and 2013, were 18.89% and 19.55%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 12 – THE COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is nonrefundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District's total payroll for the year ended December 31, 2014 was \$421,577. Contributions were based on \$382,520 (eligible gross wages). The total pension expense for the year ended December 31, 2014 was \$69,870 and \$20,058 for the employer and employees, respectively. All contributions were made as required during the year ended December 31, 2014.

The District's total payroll for the year ended December 31, 2013 was \$407,547. Contributions were based on \$368,490 (eligible gross wages). The total pension expense for the year ended December 31, 2013 was \$70,791 and \$19,315 for the employer and employees, respectively. All contributions were made as required during the year ended December 31, 2013.

The District's contribution for the year ended June 30, 2014 and 2013, was .02774% and .03055%, respectively, of the System's total contribution requirements for all employers.

For non-hazardous duty, the required contributions to the plan for all participating employees were as follows (\$ in thousands):

County Employees Retirement System (CERS) – Pension Funds

	Annual Required Contributions	Actual Contributions	Actual Contributions as a Percentage of Covered Employee Payroll
June 30, 2014	324,231	324,231	14.27%
June 30, 2013	294,914	294,914	13.19%
June 30, 2012	261,764	275,736	12.33%

County Employees Retirement System (CERS) – Insurance Funds

	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2014	130,652	123,278	94.40%
June 30, 2013	195,561	159,993	81.80%
June 30, 2012	214,421	171,925	80.20%

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 12 – THE COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)

The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from CERS. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance for current beneficiaries.

NOTE 13 – ECONOMIC DEPENDENCY

Carroll County Water District No. 1 provides water services to residential, commercial and industrial customers. It should be noted that 23.5% and 19.4% of total water revenue was received from two industries, North American Stainless and Gallatin Steel, for the years ended December 31, 2014 and 2013.

NOTE 14 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through premiums paid to Kentucky Association of Counties All Lines Fund. The District is also subject to the risks associated with employee injury. These risks are covered through premiums paid to the Kentucky Association of Counties, Workers' Compensation Self-insurance Fund. Such coverage is retrospectively rated and premiums may be adjusted based on experience.

NOTE 15 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$15,830 and \$19,851 at December 31, 2014 and 2013, respectively.

NOTE 16 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Carroll County Water District No. 1, has entered into a water resale agreement with Kentucky American Water Company to supply Kentucky American Water Company's customers in the area of Wheatley, Kentucky. Under this agreement, as amended September 15, 2013, Carroll County Water District No. 1 will sell its water to the Kentucky American Water Company at a price of \$2.26 per 1,000 gallons. The agreement is for a term of 20 years with automatic one-year extensions unless terminated by either party upon one year's written notice. Rates may be modified by providing 120 days notice or by action of the Public Service Commission.

The District has entered into a 99 year lease with the City of Ghent for the use of one of the City's buildings. The District paid the City \$15,000 for the lease. The prepayment is being amortized over the life of the lease.

Carroll County Water District was awarded a \$550,000 grant through the State legislative process. This grant was used to reimburse the District for radio-read meters, two new service vehicles, reimbursements for costs associated with the District's standby generator project and additional system improvements. The District received the funding over the years ended December 31, 2011 through December 31, 2013 as the costs were incurred, with final reimbursement received in December, 2013.

The District has entered into an interlocal agreement with Carrollton Utilities to participate in an "interconnect" improvement project to improve each utility's ability to continue service in an emergency. The project will be financed through Kentucky Infrastructure Authority with 25% debt forgiveness. Carroll County Water District's share of the project is estimated at \$224,685. Heritage Consultants has been awarded the engineering contract on the project.

The District has entered into an interlocal agreement with Carrollton Utilities to participate in the *Focus on Care Mission and Infrastructure Project*. Under the project the District will install SCADA at six sites in its system to prevent water loss and alert District staff when issues arise. The project will be financed through Kentucky Infrastructure Authority with 50% debt forgiveness.

In December, 2013 the District approved a contract with Walter Martin Excavating, Inc. in the amount of \$71,370 for the replacement of the waterline on Highway 355. The expense was reimbursed by the Kentucky Department of Transportation.

CARROLL COUNTY WATER DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
December 31, 2014 and 2013

NOTE 17 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68 is effective for periods beginning after June 15, 2014. Under this statement governments will be required to report the net pension liability associated with its' employee's pension as a liability in their accrual-based financial statements. A government has a present obligation to pay deferred benefits earned by its employees. "*Net Pension Liability*" represents the government's obligation to pay deferred benefits when the total pension [plan's] liability exceeds the pension plan's net assets. This reporting requirement is an important change that will more clearly depict the government's financial position. While this information will, in some cases give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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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

To the Commissioners of the
Carroll County Water District No. 1
Ghent, KY 41045

We have audited 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, the financial statements of Carroll County Water District No. 1 as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Carroll County Water District No. 1's basic financial statements and have issued our report thereon dated March 6, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Carroll County Water District No. 1'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 Carroll County Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Carroll County Water District No. 1's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Items 2014-001 and 2014-002).

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Carroll County Water District No. 1'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*.

CARROLL COUNTY WATER DISTRICT NO. 1'S RESPONSE TO FINDINGS

Carroll County Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Carroll County Water District No. 1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP, & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

March 6, 2015

**CARROLL COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2014**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the Carroll County Water District No. 1.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the 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. Items 2014-001 and 2014-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Carroll County Water District No. 1, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

DEFICIENCIES IN INTERNAL CONTROL

GOVERNMENT AUDITING STANDARDS

2014-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2013 as 13-1.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes to review the accuracy and consistency of the financial information prepared.

RESPONSE:

We concur with the recommendation. Management will enhance the monthly review and checking procedures associated with its financial information.

**CARROLL COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2014**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

**2014-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED
NOTE DISCLOSURES**

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2013 as 13-2.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

RESPONSE:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

COMPLIANCE AND OTHER MATTERS

NONE