



East Clark County Water District

Winchester, Kentucky

Financial Statements

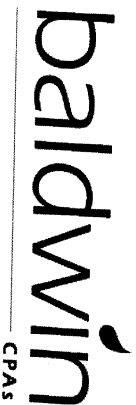
And Independent Auditors' Report

For The Years Ended

December 31, 2014 and 2013

Table Of Contents

Independent Auditors' Report	<u>Page</u> 1 - 3
Management's Discussion and Analysis	4 - 7
Basic Financial Statements:	
Statements of Net Position	8 - 9
Statements of Revenue, Expenditures, and Changes in Net Position	10
Statements of Cash Flows	11 - 12
Notes to the Financial Statements	13 - 24
Supplemental Schedules:	
Statement of Functional Expenses - 2014	25
Statement of Functional Expenses - 2013	26
Statements of Revenue, Expenditures, and Changes and Net Position - Budget and Actual	27
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28-29



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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
East Clark County Water District
Winchester, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the East Clark County Water District as of and for the years ended December 31, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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.

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 East Clark County Water District 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 and budgetary comparison information on pages 4-7 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The statements of functional expenses for the years ended December 31, 2014 and 2013 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements of functional expenses for the years ended December 31, 2014 and 2013 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the

statements of functional expenses for the years ended December 31, 2014 and 2013 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standard*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
March 30, 2015

**EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2014 AND 2013**

East Clark County Water District (the District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal years ending December 31, 2014, 2013, and 2012. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements in order to enhance their understanding of the District's financial performance.

2014 FINANCIAL HIGHLIGHTS

- The District's operating revenues and operating expenses remained consistent with the prior year.
- The Districts total assets decreased \$139,841 and total liabilities decreased \$302,157, resulting in an increase in total net position of \$162,316 or 374.2% from the prior year.
- Interest income for the year was \$3,190, which is a 72.2% decrease from 2013. The decrease reflects the continued decline in interest rates in 2014 and the reduction in interest bearing deposits because funds were used for construction in 2013.

GENERAL INFORMATION ABOUT EAST CLARK COUNTY WATER DISTRICT

The District recognized the need for a central water supply for the residents of the eastern section of Clark County, Kentucky early in its history. The District was organized in 1967 pursuant to Chapter 74 of the Kentucky Revised Statutes.

Management is vested in a five-member commission consisting of a chairman and four commissioners appointed by Clark County Fiscal Court.

The District relies on Winchester Municipal Utilities and Kentucky American Water Company for its water supply. Water is pumped to approximately 2400 customers through more than 197 miles of water mains. The Kentucky Public Service Commission (PSC) regulates the District in matters of rates, rules, and levels of service.

DISTRICT FINANCIAL ANALYSIS

The Statements of Net Position includes all of the District's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District. A summary of the District's Statements of Net Position is presented below.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2014 AND 2013

Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 2,743,350	\$ 2,673,382	\$ 2,646,286
Capital assets, net of depreciation	<u>8,081,488</u>	<u>8,295,756</u>	<u>8,525,640</u>
Total assets	<u>10,824,838</u>	<u>10,969,138</u>	<u>11,171,926</u>
Debt outstanding	2,118,748	2,375,328	2,644,438
Other liabilities	<u>170,468</u>	<u>216,045</u>	<u>184,220</u>
Total liabilities	<u>2,289,216</u>	<u>2,591,373</u>	<u>2,828,658</u>
Investment in capital assets, net of related debt	5,890,340	5,857,898	\$ 5,825,932
Restricted	136,201	136,201	136,201
Unrestricted	<u>2,509,081</u>	<u>2,383,666</u>	<u>2,381,135</u>
Total net position	<u>\$ 8,535,622</u>	<u>\$ 8,377,765</u>	<u>\$ 8,343,268</u>

Net position increased \$157,857 from 2013 to 2014, an increase of 1.88%. Debt outstanding has decreased \$256,580 or 10.2% from 2013.

Condensed Statements of Activities and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 1,511,684	\$ 1,367,696	\$ 1,460,087
Non-operating revenues	<u>5,608</u>	<u>452,553</u>	<u>183,963</u>
Total revenues	<u>1,517,292</u>	<u>1,820,249</u>	<u>1,644,050</u>
Operating expenses	994,908	948,077	936,518
Depreciation	312,547	312,278	296,780
Non-operating expense	<u>70,249</u>	<u>532,653</u>	<u>289,819</u>
Total expenses	<u>1,377,704</u>	<u>1,793,008</u>	<u>1,523,117</u>
Net income	139,588	27,241	120,933
Customer connection fees	<u>18,269</u>	<u>7,256</u>	<u>14,514</u>
Changes in net position	157,857	34,497	135,447
Beginning net position	<u>8,377,765</u>	<u>8,343,268</u>	<u>8,207,821</u>
Ending net position	<u>\$ 8,535,622</u>	<u>\$ 8,377,765</u>	<u>\$ 8,343,268</u>

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2014 AND 2013

The District's total revenue, excluding grants, decreased by \$302,957 or 16.64%. The decrease is due in part to the completion of a Department of Transportation contract to relocate waterlines during a road improvement project. Total expenses decreased \$415,304 or 23.2% due to the completion of the Department of Transportation contract. The increase in depreciation in 2014 of \$269 or 0.09% is attributed the number of assets which were fully depreciated at the end of 2013. In 2014, non-operating expense consists of interest expense on long term debt of \$70,249. In 2013, non-operating expense consists of interest expense on long term debt of \$104,206, plus \$428,387 of construction expenses related to the Department of Transportation contract.

CAPITAL EXPENDITURES

Condensed Schedule of Capital Assets

	2014	2013	2012
Capital assets	\$ 12,493,548	\$12,395,269	\$12,377,508
Accumulated depreciation	<u>(4,412,060)</u>	<u>(4,099,513)</u>	<u>(3,851,868)</u>
	<u>\$ 8,081,488</u>	<u>\$ 8,295,756</u>	<u>\$ 8,525,640</u>

There were no construction projects in 2014. In 2013, the District completed and placed in service the tank started in 2012, on KY Highway 15 for a total cost of \$933,041. The project was financed with funds provided by state grants and the District's reserves. Equipment acquisitions were financed from the District's reserve funds in 2014, 2013 and 2012. Contributions to capital amounted to \$18,269 in 2014, \$7,256 in 2013, and \$14,514 in 2012, for new tap-ons to existing lines.

BONDS AND CAPITAL LEASE OBLIGATIONS

Condensed Schedule of Debt

	2014	2013	2012
Bonds	\$ 1,292,748	\$ 1,371,328	\$1,470,438
Capital lease obligations	<u>826,000</u>	<u>1,004,000</u>	<u>1,174,000</u>
Total	<u>\$ 2,118,748</u>	<u>\$ 2,375,328</u>	<u>\$2,644,438</u>

The District made all of its scheduled debt payments during 2014, 2013, and 2012. During 2013, the District had new borrowing of \$130,000 from KRWFC Flexible Term Program. The rate of interest varies from 2.3% to 4.8% over the life of the bond. The net present value of the cashflow savings resulting from refinancing is \$15,129 over the life of the new bonds.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2014 AND 2013

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

The District continues to sustain slow growth. New tap-ons increased \$11,013 from 2013 to 2014. Growth in 2015 is anticipated to remain at slow levels.

During 2014, the District's water rates did not increase. The District buys water for distribution to its customers. In the future, as costs of purchased water rises, rate increases from WMU and Kentucky American Water Company who supply water to the District will be passed on to District customers.

The District decided to continue its meter change out program which began in the fall of 2006. Additional radio-read meters continue to be installed on the more heavily traveled roads. The benefits of the change will improve safety for the meter readers and improve reporting of customer usage and leak detection.

DISTRICT CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact East Clark County Water District, 118 Hopkins Street, Winchester, KY 40392 or by phone at (859) 745-1458 or by email at wdballard@bellsouth.net.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 719,189	\$ 543,019
Investments		
Receivables:	1,651,921	1,800,609
Customer accounts		
Unbilled	113,119	112,418
Other accounts	42,622	37,120
Accrued interest	92,715	56,306
Inventory, at cost	3,636	9,514
Prepaid expenses	27,594	24,613
	13,468	13,450
Total current assets	<u>2,664,264</u>	<u>2,597,049</u>
Restricted assets:		
Cash and cash equivalents	<u>79,086</u>	<u>76,333</u>
Total restricted assets	<u>79,086</u>	<u>76,333</u>
Capital assets:		
Property, plant and equipment, net of depreciation	8,023,444	8,237,712
Land	<u>58,044</u>	<u>58,044</u>
	8,081,488	8,295,756
Total assets	<u>\$ 10,824,838</u>	<u>\$ 10,969,138</u>

(CONTINUED)

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2014 AND 2013

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current liabilities:		
Accounts payable, trade	32,976	\$ 38,304
Accounts payable, construction	-	48,638
Accrued compensated absences	18,733	16,946
Accrued interest payable	22,045	27,254
Accrued liabilities	24,314	22,373
Lease obligations - current portion	186,000	178,000
Refundable customer deposits	72,400	62,530
Revenue bonds - current portion	76,000	76,000
Total current liabilities	<u>432,468</u>	<u>470,045</u>
Long-term liabilities:		
Revenue bonds net of current portion	1,216,748	1,295,328
Obligations under long-term lease net of current portion	640,000	826,000
Total long-term liabilities	<u>1,856,748</u>	<u>2,121,328</u>
Total liabilities	<u>2,289,216</u>	<u>2,591,373</u>
Net Position		
Investment in capital assets, net of related debt	5,890,340	5,857,898
Restricted:		
Restricted for debt retirement	117,001	117,001
Restricted for plant renewal and replacement	19,200	19,200
Unrestricted	<u>2,509,081</u>	<u>2,383,666</u>
Total net position	<u><u>8,535,622</u></u>	<u><u>\$ 8,377,765</u></u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating revenues		
Water sales	\$ 1,376,816	1,319,693
Other operating income	<u>134,868</u>	<u>48,003</u>
Total operating revenues	<u>1,511,684</u>	<u>1,367,696</u>
Operating expenses		
Transmission, distribution and services	335,215	331,715
Purchased water	328,639	292,110
General and administrative	331,053	323,812
Depreciation	<u>312,548</u>	<u>312,718</u>
Total operating expenses	<u>1,307,455</u>	<u>1,260,355</u>
Operating income	<u>204,229</u>	<u>107,341</u>
Non-operating revenues (expenses):		
Other revenue	1,709	435,295
Interest income	3,190	14,014
Customer connection fees	18,269	7,256
Gain on disposal of assets	709	3,244
Other expenses	-	(428,387)
Interest expense	<u>(70,249)</u>	<u>(104,266)</u>
Total non-operating revenues (expenses)	<u>(46,372)</u>	<u>(72,844)</u>
Change in net position	157,857	34,497
Net position at the beginning of the year	<u>8,377,765</u>	<u>8,343,268</u>
Net position at the end of the year	<u><u>\$ 8,535,622</u></u>	<u><u>\$ 8,377,765</u></u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,298,709	\$ 1,367,696
Cash payments to suppliers for goods and services	(585,876)	(630,900)
Cash payments to employees and professional contractors for services	(285,826)	(309,310)
Net cash provided by operating activities	<u>427,007</u>	<u>427,486</u>
Cash flows from non-capital financing activities:		
Other revenue	1,709	435,295
Other expenses	-	(428,387)
Net cash provided by non-capital financing activities	<u>1,709</u>	<u>6,908</u>
Cash flows from capital and related financing activities:		
New borrowing	-	144,890
Principal payments on bonds and lease obligations	(256,580)	(414,000)
Interest payments on bonds and lease obligations	(70,249)	(104,266)
Equipment purchased	(93,820)	(82,834)
Sale of surplus equipment	709	3,244
Customer connection fees	18,269	7,256
Net cash used by capital and related financing activities	<u>(401,671)</u>	<u>(445,710)</u>
Cash flows from investing activities:		
Sale (acquisition) of unrestricted investments	148,688	(12,649)
Sale (acquisition) of restricted investments	-	-
Interest received on cash deposits and investments	3,190	14,014
Net cash provided by investing activities	<u>151,878</u>	<u>1,365</u>

(CONTINUED)

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Increase (decrease) in cash and cash equivalents	178,923	(9,951)
Cash and cash equivalents at the beginning of the year	<u>619,352</u>	<u>629,303</u>
Cash and cash equivalents at the end of the year	<u>\$ 798,275</u>	<u>\$ 619,352</u>
Reconciliation of cash and cash equivalents at the end of the year		
Unrestricted cash and cash equivalents	\$ 719,189	\$ 543,019
Restricted cash and cash equivalents	<u>79,086</u>	<u>76,333</u>
Total cash and cash equivalents at the end of the year	<u>\$ 798,275</u>	<u>\$ 619,352</u>
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 204,229	\$ 107,341
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	312,547	312,718
(Increase) decrease in:		
Customer accounts receivable	6,561	(4,027)
Unbilled receivable	(5,502)	4,796
Other receivables	(42,252)	(23,610)
Inventory	(2,981)	371
Prepaid expenses	(18)	(1,928)
Increase (decrease) in:		
Accounts payable, trade accounts	(5,328)	(2,351)
Accounts payable, construction	(48,638)	21,245
Accounts payable from restricted funds	-	-
Accrued liabilities	1,941	2,464
Accrued compensated absences	1,787	223
Accrued interest payable	(5,209)	2,984
Customer deposits	<u>9,870</u>	<u>7,260</u>
Net cash provided by operating activities	<u>\$ 427,007</u>	<u>\$ 427,486</u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Clark County Water District is a "Class B" water district located in Clark County, Kentucky, with principal offices located at 118 Hopkins Lane, Winchester, Kentucky. It was organized in 1967, under Kentucky Revised Statutes, Chapter 74. It is overseen by a five-member commission consisting of a chairman and four commissioners, all appointed by Clark County Fiscal Court. Water is purchased from Winchester Municipal Utilities and Kentucky American Water Company and resold to approximately 2,400 residential and commercial customers.

Basis of Accounting and Measurement Focus

The District is accounted for as a governmental proprietary fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

The District is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water to customers in connection with the District's ongoing operations. The principal operating revenues are charges to customers for water sales and services. Operating expenses include the cost of purchased water and other related service expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues and expenses generally result from contracts with other entities to move existing water lines as required by road and railroad maintenance and improvements.

Property and Equipment

The District capitalizes expenditures for property and equipment of \$1,000 or more. Property and equipment are stated at cost. Donations are recorded at their fair market value at the date of transfer. No donated assets were received in the years ended December 31, 2014 and 2013.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation of exhaustible fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets. Depreciation is provided for financial statement purposes by the straight-line method over the following estimated useful lives:

Lines and storage	50 years
Building	30 years
Pumps and treatment equipment	20 years
Maintenance equipment and vehicles	3-10 years
Office furniture and equipment	3-5 years

Capital Grants and Subsidies

The purchase of property and equipment acquired by grants and subsidies restricted for that purpose are capitalized and the grant or subsidy is recorded as non-operating revenue. These grants and subsidies are not subject to repayment. Certain plant assets have been contributed by customers. These contributions are not subject to repayment.

Receivables

All receivables are reported at their gross value. Estimated un-billed revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. No allowance for doubtful accounts is provided. The District identifies and writes off uncollectible accounts as they occur. Bad debts written off as of December 31, 2014 and 2013 were \$3,118 and \$2,771, respectively.

Vacation, Sick Leave, and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Paid vacation time accrues at the rate of one to three weeks based on the length of employment. Unused vacation time may be carried forward from one year to the next with certain limitations. Other compensated absences do not vest and are recorded as expenditures when they are paid.

Cash and Cash Equivalents

The District includes in cash and cash equivalents, cash on hand and unrestricted cash in checking, money market accounts, federated treasury obligation funds, and unrestricted certificates of deposit with maturities of three months or less.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost or market value on a first-in, first-out basis.

Investments

Investments consist of certificates of deposits with maturity dates of three months or more. Management believes the face value of the certificates approximates their market value. Certificates of deposit in excess of FDIC insurance are collateralized by securities held by the pledging institution.

Interest

Interest is charged to expense as incurred except for interest related to loans used for construction projects, which is capitalized net of interest earned on such borrowed construction funds. Interest capitalization ceases when the construction project is substantially complete. There was no capitalized interest during 2014 and 2013.

Net Position Classifications

The District records restrictions for portions of its net position which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriation. Unrestricted portions of net position indicate amounts which are available for appropriation in future periods. Restrictions in net position are classified as follows:

- **Investment in capital assets, net of related debt** includes the District's capital assets, (net of accumulated depreciation) reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted for Debt Service** includes assets that have been set aside as required by statute or bond covenant for the future payment of the District's Debt.
- **Restricted for Plant Renewal and replacement** includes assets that have been set aside for future additions, repairs or replacement of property, plant or infrastructure.

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS

The District investment policies conform to state statutes. The District deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Investments include certificates of deposit with maturities of one year with banks. Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky Revenue Bonds. The District's deposits and investments are collateralized with securities held by the bank's trust department in the District's name or letter of credit held by a third party in the District's name.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS (CONTINUED)

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the District's deposits and/or investments may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2014 and 2013, \$2,013,824 and \$1,844,487 of the District's total deposits at banks of \$2,468,612 and \$2,390,655, respectively, were exposed to custodial credit risk as follows:

	<u>2014</u>	<u>2013</u>
Uninsured and uncollateralized	\$ 78,824	\$ 46,168
Insured and collateral held by third party in the		
District's name	500,000	500,000
Insured and collateral held by pledging bank's		
trust department not in the District's name	<u>1,435,000</u>	<u>1,298,319</u>
	<u>\$ 2,013,824</u>	<u>\$ 1,844,487</u>

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH

The Bond Resolutions require the creation of various separate deposit accounts, each designated for a specific purpose, as defined in the resolution. A summary of the required accounts and their significant provisions follows:

Revenue Fund

All income to the District is deposited to the Revenue Fund, and then transferred to the other funds as indicated below.

Bond and Interest Sinking Funds and Sinking Fund Reserves

The Bond and Interest Sinking Funds were established to provide sources of funds for the payment of bond principal and interest, currently due. Each month funds equal to the total of (1) one-sixth of the next succeeding semiannual interest payment plus (2) one-twelfth of the next annual bond principal payments are to be transferred to the funds. For the years ended December 31, 2014 and 2013 the required Sinking Fund Reserve balances were \$117,001 and \$117,001, respectively.

Depreciation Reserve Fund

The Depreciation Reserve Fund was established to provide funds for extraordinary repairs, betterments, and expansion. The District is required to deposit \$160 into the fund each month until the accumulated balance equals \$19,200. Funds may be used as needed, but the balance must be restored to \$19,200, as soon as possible, so long as any bonds are outstanding and unpaid.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH (CONTINUED)

Operation and Maintenance Fund

Monthly sums, sufficient to meet the current expenses of operating and maintaining the system, are to be transferred from the Revenue Fund. The balance shall not be in excess of an amount sufficient to cover anticipated expenditures for a two-month period, which is approximately \$150,000. The balance at December 31, 2014 and 2013 is \$64,389 and \$9,209, respectively.

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Activity for plant and equipment which is capitalized by the District for the year ended December 31, 2014 is summarized below:

	Balance Dec. 31, 2013	Additions	Retirements	Balance Dec. 31, 2014
Non depreciable assets:				
Land	\$ 58,044	\$	\$	\$ 58,044
Depreciable assets:				
Buildings and improvements	440,645	9,500	-	450,145
Pumps	84,026	8,206	-	92,232
Lines and storage	10,443,333	-	-	10,443,333
Meters	954,531	8,658	-	963,189
Office equipment	63,472	-	-	63,472
Vehicles	154,337	16,000	-	170,337
Maintenance equipment	196,881	55,916	-	252,797
Total depreciable assets	12,337,225	98,280	-	12,435,505
Less accumulated depreciation for:				
Building and improvements	198,611	18,964	-	217,575
Pumps	42,296	2,269	-	44,565
Lines and storage	3,279,461	212,923	-	3,492,384
Meters	294,538	47,944	-	342,482
Office equipment	59,839	1,448	-	61,287
Vehicles	126,086	11,640	-	137,726
Maintenance equipment	98,682	17,360	-	116,042
Total accum. depreciation	4,099,513	312,548	-	4,412,061
Depreciable assets, net	8,237,712	(214,268)	-	8,023,444
Total capital assets, net of depreciation	\$ 8,295,756	\$ (214,268)	\$ -	\$ 8,081,488

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

Activity for plant and equipment which is capitalized by the District for the year ended December 31, 2013 is summarized below:

	Balance Dec. 31, 2012	Additions	Retirements	Balance Dec. 31, 2013
Non depreciable assets:				
Land	\$ 58,044	\$	\$	\$ 58,044
Depreciable assets:				
Buildings and improvements	440,645	-	-	440,645
Pumps	84,026	-	-	84,026
Lines and storage	10,443,333	-	-	10,443,333
Meters	900,010	84,559	30,038	954,531
Office equipment	63,472	-	-	63,472
Vehicles	154,337	-	-	154,337
Maintenance equipment	233,641	11,819	48,579	196,881
Total depreciable assets	12,319,464	96,378	78,617	12,337,225
Less accumulated depreciation for:				
Building and improvements	179,538	19,103	30	198,611
Pumps	41,208	1,680	592	42,296
Lines and storage	3,066,195	213,266	-	3,279,461
Meters	262,140	48,255	15,857	294,538
Office equipment	58,391	1,448	-	59,839
Vehicles	111,973	14,128	15	126,086
Maintenance equipment	132,423	14,838	48,579	98,682
Total accum. depreciation	3,851,868	312,718	65,073	4,099,513
Depreciable assets, net	8,467,596	(216,340)	13,544	8,237,712
Total capital assets, net of depreciation	\$ 8,525,640	\$ (216,340)	\$ 13,544	\$ 8,295,756

NOTE 5 – LONG TERM DEBT AND LEASES

The District issues revenue bonds to finance improvements and extensions to water lines. During 2014 the District issued no new revenue bonds. During 2013 the District issued a new bond Series 2013C for \$130,000 through the Kentucky Rural Water Finance Corporation. The District incurred \$4,950 in issuance costs. The bonds sold for a premium of \$15,648. Interest on the bonds ranges from 2.3% to 4.8% over the life of the bonds. The net present value of the cashflow savings as a result of refinancing is \$15,129 over the life of the new bonds.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

At December 31, 2014, East Clark County Water District had the following long term debt and leases outstanding:

2014 Bonds:

<u>Description</u>	<u>Balance</u> <u>Dec. 31, 2013</u>	<u>New</u> <u>Issue</u>	<u>Principal</u> <u>Payment</u>	<u>Balance</u> <u>Dec. 31, 2014</u>	<u>Due within</u> <u>one year</u>
East Clark County Water District Waterworks Bonds, Series of 1978, with interest of 5% payable January 1 and July 1	\$ 67,000		\$ 16,000	\$ 51,000	\$ 16,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2011C Bonds with interest of 2.2% to 4.35% payable January 1 and July 1	670,000	-	30,000	640,000	30,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2012C Bonds with interest of 2.15% to 4.275% payable February 1 and August 1	485,000	-	20,000	465,000	20,000
East Clark County Water District Waterworks Refunding Bonds, Series 2013C, with interest of 2.3% to 4.8% payable January 1 and July 1	130,000	-	10,000	120,000	10,000
	<u>\$ 1,352,000</u>	<u>\$ -</u>	<u>\$ 76,000</u>	<u>\$ 1,276,000</u>	<u>\$ 76,000</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

2013 Bonds:

<u>Description</u>	<u>Balance</u> <u>Dec. 31, 2012</u>	<u>New</u> <u>Issues</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2013</u>	<u>Due within</u> <u>one year</u>
East Clark County Water District Waterworks Bonds, Series of 1978, with interest of 5% payable January 1 and July 1	82,000	-	15,000	67,000	16,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2011C Bonds, with interest of 2.2% to 4.35% payable January 1 and July 1	700,000	-	30,000	670,000	30,000
Kentucky Rural Water Finance Corporation Multi Modal Public Projects Revenue Bonds, Series 2001G with interest of 1.3% to 3.0% payable January 1 and July 1	30,000	-	30,000	-	-
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2012C Bonds, with interest of 2.15% to 4.275% payable February 1 and August 1	505,000	-	20,000	485,000	20,000
East Clark County Water District Waterworks Refunding Bonds, Series 2002, with interest of 3.15% to 5.15% payable January 1 and July 1	149,000	-	149,000	-	-
East Clark County Water District Waterworks Refunding Bonds, Series 2013C, with interest of 2.3% to 4.8% payable January 1 and July 1	-	130,000	-	130,000	10,000
	<u>1,466,000</u>	<u>130,000</u>	<u>244,000</u>	<u>1,352,000</u>	<u>76,000</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

The debt service on the bonds is as follows:

Due the year ending December 31,	Principal	Interest	Total
2015	\$ 76,000	\$ 48,686	\$ 124,686
2016	82,000	46,105	128,105
2017	83,000	43,213	126,213
2018	65,000	40,213	105,213
2019	70,000	37,911	107,911
2020-2024	390,000	148,612	538,612
2025-2029	385,000	71,254	456,254
2030-2031	125,000	5,678	130,678

Capital leases

\$ 1,276,000 \$ 441,672 \$ 1,717,672

The District is obligated under financing arrangements accounted for as capital leases. The cost and accumulated depreciation of assets acquired under these arrangements is included with other owned assets disclosed in Note 4 - Property, Plant, and Equipment. Capital lease obligations and changes for 2014 are as follows:

	Balance December 31, 2013	Additions	Payments	Balance December 31, 2014	Due in one Year
KACO #1	\$ 96,000	-	\$ 31,000	\$ 65,000	\$ 32,000
KACO #2	381,000	-	70,000	311,000	73,000
KACO #3	527,000	-	77,000	450,000	81,000
	<u>\$ 1,004,000</u>	<u>-</u>	<u>\$ 178,000</u>	<u>\$ 826,000</u>	<u>\$ 186,000</u>

Capital lease obligations and changes for 2013 are as follows:

	Balance December 31, 2012	Additions	Payments	Balance December 31, 2013	Due in one Year
KACO #1	\$ 125,000	-	\$ 29,000	\$ 96,000	\$ 31,000
KACO #2	448,000	-	67,000	381,000	70,000
KACO #3	601,000	-	74,000	527,000	77,000
	<u>\$ 1,174,000</u>	<u>-</u>	<u>\$ 170,000</u>	<u>\$ 1,004,000</u>	<u>\$ 178,000</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

The following is a schedule of future minimum lease payments, together with the net present value of the minimum lease payments at December 31, 2014:

Year ending December 31,	Lease Payments
2015	\$ 218,785
2016	217,181
2017	183,071
2018	183,057
2019	<u>100,450</u>
Total minimum lease payments	902,544
Less:	
Amount representing interest at the District's incremental borrowing rate	<u>(76,544)</u>
	<u>\$ 826,000</u>

NOTE 6 – INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and customers; or acts of God. The District insures against these risks through insurance policies obtained from commercial vendors. The District has pooled its risk for workers compensation insurance. The District pays an annual premium for insurance coverage and is liable for additional premium assessments as determined by the pool. At December 31, 2014 and 2013, no additional premium assessment had been made. Other insurable risks are covered by policies with conventional insurance companies.

NOTE 7 - RETIREMENT PLAN

All employees are covered under the County Employee's Retirement System administered by the Board of Trustees of Kentucky Retirement Systems under the authority of KRS Section 61.645 (hereafter the "Plan"). Funding for the Plan is provided through the employee's contribution of 5% and the District's contribution of 16.93% of the employee's total compensation subject to contribution. The cost for the Plan charged to operations for the years ended December 31, 2014, 2013, and 2012 was \$56,978, \$60,410, and \$56,256, respectively. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling 1-502-564-4646.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

NOTE 8 - PURCHASED WATER

The District entered into a written agreement to purchase all of its water from Winchester Municipal Utilities (WMU). The term of the contract is for twenty years ending July 15, 2019 with an option to renew for an additional period of twenty years. The District purchases water at \$1.72 per 100 cubic feet of water. This rate is subject to periodic increases by WMU. With the approval of the Public Service Commission, the District may pass these rate increases along to its customers. Water is delivered to the District by meters maintained by WMU.

NOTE 9 – SUBSEQUENT EVENT

The district has evaluated subsequent events through March 30, 2015 that date which the financial statements were available to be issued.

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Government Employers and Statement No. 50, Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires government providing defined benefit pensions to recognize their long-term obligations for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Cost-sharing governmental employers will also be required to report a net pension liability, pension expense, and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

All governments participating in the defined benefit pension plan would also have the following in the disclosures:

- Descriptions of the plan and benefits provided
- Significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the discount rate and impact on the total pension liability of a 1 percentage point increase and decrease in the discount rate.
- Net position assets and liabilities

The provisions of the Statement are effective for fiscal years beginning after June 15, 2014. The District is currently evaluating the effects of this statement on its financial statements.

SUPPLEMENTAL SCHEDULES

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 328,639	\$ -	\$ -	\$ 328,639
Depreciation	-	-	-	312,548	312,548
Salaries	148,751	-	106,447	-	255,198
Employee benefits	72,697	-	52,023	-	124,720
Supplies	33,888	-	16,213	-	50,101
Repairs and maintenance	13,791	-	18,527	-	32,318
Outside services	4,271	-	5,584	-	9,855
Technology	3,144	-	-	-	3,144
Commissioners' salaries	-	-	30,461	-	30,461
Payroll tax expense	11,442	-	8,188	-	19,630
Professional fees	-	-	18,900	-	18,900
Utilities	22,598	-	6,250	-	28,848
Truck expense	20,984	-	3,657	-	24,641
Equipment rental	625	-	-	-	625
Insurance	-	-	26,402	-	26,402
Postage	-	-	15,995	-	15,995
Bad debts	-	-	3,188	-	3,188
Miscellaneous	-	-	3,391	-	3,391
Telephone	3,329	-	2,338	-	5,667
Dues and subscriptions	-	-	1,511	-	1,511
Loading station expense	1,545	-	-	-	1,545
Employee training and seminars	-	-	2,754	-	2,754
PSC assessment	-	-	2,670	-	2,670
Uniforms	-	-	4,050	-	4,050
Lab testing	4,297	-	-	-	4,297
Travel and meals expense	-	-	2,504	-	2,504
Capitalized overhead allocation	(6,147)	-	-	-	(6,147)
	<u>\$ 335,215</u>	<u>\$ 328,639</u>	<u>\$ 331,053</u>	<u>\$ 312,548</u>	<u>\$ 1,307,455</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 292,110	\$ -	\$ -	\$ 292,110
Depreciation	-	-	-	312,718	312,718
Salaries	147,619	-	113,124	-	260,743
Employee benefits	66,910	-	51,275	-	118,185
Supplies	37,923	-	10,549	-	48,472
Repairs and maintenance	4,333	-	12,148	-	16,481
Outside services	2,478	-	5,917	-	8,395
Technology	6,896	-	-	-	6,896
Commissioners' salaries	-	-	30,085	-	30,085
Payroll tax expense	15,307	-	11,731	-	27,038
Professional fees	-	-	18,482	-	18,482
Utilities	17,750	-	6,846	-	24,596
Truck expense	23,551	-	1,953	-	25,504
Equipment rental	331	-	-	-	331
Insurance	-	-	23,816	-	23,816
Postage	-	-	13,899	-	13,899
Bad debts	-	-	2,771	-	2,771
Miscellaneous	-	-	4,561	-	4,561
Telephone	5,390	-	2,247	-	7,637
Dues and subscriptions	-	-	1,317	-	1,317
Loading station expense	1,544	-	-	-	1,544
Employee training and seminars	-	-	955	-	955
PSC assessment	-	-	2,606	-	2,606
Uniforms	-	-	2,055	-	2,055
Lab testing	4,323	-	-	-	4,323
Travel and meals expense	-	-	1,507	-	1,507
Bond insurance costs	-	-	5,968	-	5,968
Capitalized overhead allocation	(2,640)	-	-	-	(2,640)
	<u>\$ 331,715</u>	<u>\$ 292,110</u>	<u>\$ 323,812</u>	<u>\$ 312,718</u>	<u>\$ 1,260,355</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014 Budget	2014 Actual	Favorable (Unfavorable)	2013 Budget	2013 Actual	Favorable (Unfavorable)
Operating revenues:						
Water sales	\$ 1,367,500	\$ 1,376,816	\$ 9,316	\$ 1,367,500	\$ 1,319,693	\$ (47,807)
Other operating income	45,000	134,868	89,868	44,000	48,003	4,003
Total operating revenues	1,412,500	1,511,684	99,184	1,411,500	1,367,696	(43,804)
Operating expenses:						
Operation and maintenance	985,200	975,277	9,923	942,500	920,599	21,901
Depreciation and amortization	310,000	312,548	(2,548)	330,000	312,718	17,282
Taxes	28,200	19,630	8,570	26,200	27,038	(838)
Total operating expenses	1,323,400	1,307,455	15,945	1,298,700	1,260,355	38,345
Operating income	89,100	204,229	115,129	112,800	107,341	(5,459)
Non-operating revenues (expenses):						
Other revenue	-	1,709	1,709	636,644	435,295	(201,349)
Interest income	12,000	3,190	(8,810)	13,125	14,014	889
Sale/disposal of surplus equipment	-	709	709	-	3,244	3,244
Other expenses	-	-	-	(637,094)	(428,387)	208,707
State grants and customer connection fees	10,000	18,269	8,269	-	7,256	7,256
Interest expense	(130,000)	(70,249)	59,751	(103,000)	(104,266)	(1,266)
Total non-operating revenues (expenses)	(108,000)	(46,372)	61,628	(90,325)	(72,844)	17,481
Change in net position	\$ (18,900)	\$ 157,857	\$ 176,757	\$ 22,475	\$ 34,497	\$ 12,022

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance And Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Commissioners
East Clark County Water District
Winchester, Kentucky

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 the business-type activities of East Clark County Water District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the East Clark County Water District's basic financial statements and have issued our report thereon dated March 30, 2015.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control 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 East Clark County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC

March 30, 2015