FARMDALE WATER DISTRICT

FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 & 2013

HARROD & ASSOCIATES, P.S.C. Gertified Lublic Accountants FRANKFORT, KENTUCKY 40601

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Board of Directors Farmdale Water District Frankfort, Kentucky 40601

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2014 and 2013, and the related notes to the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Farmdale Water District as of December 31, 2014 & 2013, and the respective changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 and budgetary comparison on page 25 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 this 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 to 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 April 27, 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.

HI4 at Pse

Harrod & Associates, PSC Frankfort, KY 40601

April 27, 2015 cys: 4

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May, 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds will begin in 2015. All associated capital improvement projects were completed in 2013.

Financial Highlights

In 2014, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,562,769. Of this amount \$2,372,460 was invested in Capital Assets, net of debt, and \$1,190,309 was unrestricted. In 2014, the Board's net assets decreased (\$239,869) during the current fiscal year, primarily through an increase in payroll, employee benefits and depreciation.

In 2013, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,802,635. Of this amount \$2,570,316 was invested in Capital Assets, net of debt, and \$1,232,319 was unrestricted. In 2013, the Board's net assets decreased (\$98,108) during the current fiscal year, primarily through an increase in payroll, employee benefits and depreciation.

Revenues

Gross income from the sale of water, including tap on fees and reconnect fees totaled \$992,251 and \$851,202 for the calendar years 2014 and 2013, respectively. The Kentucky Public Service Commission (PSC) approved one rate increase in 2014 effective beginning with the September billing. This rate increase submitted on December 30, 2013, was submitted to assist in meeting the cost of federal loan debt retirement. During 2013, PSC approved two rate increases, the first was effective in April 2013 and the second in August 2013. All the rate increases for 2013 were primarily to meet the increased cost of purchased water.

Expenses

Operating expenses were \$1,256,660 and \$993,423 for the calendar years 2014 and 2013, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as "Transmission and Distribution", "Administrative and General Expense", "Maintenance and Repairs", "Taxes and Licenses", and "Employee Benefits". They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,600 rural residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District's three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board's financial statements are comprised of three components:

>Financial Statements
>Notes to the Financial Statements
>Required Supplemental Information

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

- The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.
- 2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale's net assets changed based on current year activity. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of

Financial Overview (continued)

cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future year. This is the "accrual" basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2014 and 2013 in highly liquid cash. "Highly liquid" means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 24 of this report.

The required supplementary information includes the Detailed Schedule of Budgeted and Actual Operating Expenses which compares the actual expenses to the budget and can be found on page 25.

Statement of Net Position Overview

The District was not required to have an audit under A-133 for 2014 but was for 2013.

Statement of Net Position	2014	2013	Change	% Change
Capital Assets Current and other assets	4,230,460 1,440,179	4,428,316 <u>1,468,552</u>	(197,856) (28,373)	(4.47%) (1.93%)
Total Assets	5,670,639	5,896,868	(226,229)	(3.84%)
Long-term Liabilities Other Liabilities	1,837,000 270,870	1,858,000 	(21,000) <u>34,637</u>	1.13% 14.66%
Total Liabilities		2,094,233	13,637	.65%
Net Position: Invested in Capital Assets Unrestricted	2,372,460 1,190,309	2,570,316 1,232,319	(197,856) (42,010)	(4.47%) (6.71%)
Total Net Position		3,802,635	(239,866)	(6.31%)

Financial Overview (continued)							
Statement of Net Position	2013	<u>2012</u>	Change	% Change			
Capital Assets Current and other assets	4,428,316 1,468,552	3,332,517 <u>1,428,152</u>	1,095,799 <u>40,400</u>	32.88% 2.83%			
Total Assets	5,896,868	4,760,669	_1,136,199	23.87%			
Long-term Liabilities Other Liabilities	1,858,000 236,233	217,132 <u>642,792</u>	1,640, 868 (406,559)	755.70% (63.25%)			
Total Liabilities		859,924	1,234,309	143.54%			
Net Position: Invested in Capital Assets Unrestricted	2,570,316 1,232,319	3,115,385 	(545,069) <u>446,959</u>	(17.50%) 56.91%			
Total Net Position	3,802,635	3,900,745	(98,110)	(2.52%)			

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev, Exp and Changes in Net Position	s <u>2014</u>	<u>2013</u>	Change	% Change
Operating Revenues Operating Expenses	992,251 1,256,660	851,202 993,423	141,049 263,237	16.57% 26.50%
Operating Income/(Loss)	(264,409)	(142,221)	(122,188)	(85.91%)
Net Non-Operating Income	24,540	44,113	19,573	(44.37%)
Change in Net Position	(239,869)	(98,108)	(141,761)	(144.95%)

2013 2012 Change % Change

Statement of Revenues, Expenses, and Changes in Net Position Overview (continued)

Operating Revenues Operating Expenses	851,202 993,423	785,609 <u>875,437</u>	65,593 <u>117,986</u>	8.35% 13.48%
Operating Income/(Loss)	(142,221)	(89,828)	(52,393)	58.33%
Net Non-Operating Income	44,113	_1,160,294	(1,116,181)	(96.20%)
Change in Net Position	(98,108)	1,070,466	<u>(1,168,574)</u>	(109.17%)

Assets

In 2014, the District's total assets decreased \$226,229 from FY 2013. The Audit Report indicates the major decreases were in "Fixed Assets" due to the depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

In 2013, the District's total assets increased \$1,136,199 from FY 2012. The Audit Report indicates the major increases were in "Fixed Assets" due to the "Water Storage Tank Project" and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

Liabilities

In 2014, the District's total liabilities increased \$13,637 from FY 2013. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". The principle payments on the loan from the U.S. Department of Agriculture do not begin until 2015, as indicated by the "Current Portion of Noncurrent Liabilities".

In 2013, the District's total liabilities increased \$1,234,309 from FY 2012. The Audit Report indicates the major changes were in "Accounts Payables" and "Long Term Liabilities". The decrease in Accounts Payable was a result of no outstanding Water Storage Tank Project unpaid invoices at year end. The increase in Long Term Debt is due to federal loans from the U.S. Department of Agriculture used to finance the Water Storage Tank Project.

Net Assets

The District's assets exceeded its liabilities by \$3,562,769, \$3,802,635 and \$3,900,745 for fiscal years ended December 31, 2014, 2013 and 2012, respectively. This represents a decrease from fiscal year 2013 to 2014 of (\$239,866) and 2012 to 2013 of (\$98,110). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the

Net Assets (continued)

company needs liquidity for cash flow. On the other hand, if you have sufficient cash flow, "investing" in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such "long-term" liabilities.

Capital Assets

Capital Assets

The District's investments in capital assets as of December 31, 2014, 2013 and 2012 amounted to \$4,230,460, \$4,428,316 and \$3,332,517 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included:

The District, through self funding, grants from Kentucky Infrastructure Authority and loans from the U.S. Department of Agriculture completed the following improvements to their system, in 2013:

- Upgrades to the water line and pump station;
- Built a 500,000 gallon elevated water storage tank;
- Installed a Supervisory Control and Data Acquisition System which controls and monitors the pump stations and tanks; and
- Installed an automated meter reading system which will allow the District to read meters via radio waves.

Debt Administration

Long-Term Debt

The District has entered into an agreement with the U. S. Department of Agriculture to borrow \$1,668,000 and a subsequent \$190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The repayment of principle will begin with a \$21,000 principal payment in January 2015. The loan is a 40 year loan at 3.125% interest payable semi-annually.

Budget

Budget

KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water

The District, in 2013, has completed the project of updating their water lines, storage capacity, and monitoring capability of much of their system.

Administrative and General

The District continues to experience an increase in health care expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future.

The District did hire another employee in August 2013 to meet the ever increasing demands of customer service. Future personnel will be based upon operational needs.

The District has experienced changes in the employer contribution rate to CERS for employee pension. In 2014, the employer share rate was 18.89% from January – June and changed to 17.67% for July – December, a 6.46% decrease. In 2013, the employer share rate was 19.55% from January – June and changed to 18.89% for July – December, a 3.38% decrease. These rates are expected to continue to fluxuate with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Future (continued)

Overall

The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

Farmdale Water District Statement of Net Position December 31, 2014 & 2013

ASSETS		
CURRENT ASSETS	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents (Note 1)	\$ 240,308	\$ 227,752
Certificates of Deposit (Note 1)	1,061,924	1,125,548
Accounts Receivable (Note 1)	108,073	90,544
Inventory (Note 1)	14,303	13,324
Accrued Interest Receivable	440	432
Prepaid Expenses	15,131	10,952
TOTAL CURRENT ASSETS	1,440,179	1,468,552
CAPITAL ASSETS (Note 2)		
Land & Buildings	47,491	47,491
Equipment	143,676	143,676
Vehicles	29,462	28,562
Water Lines, Hydrants, Towers, & Meters	5,950,426	5,926,299
Accumulated Depreciation	(1,940,595)	(1,717,712)
TOTAL CAPITAL ASSETS	4,230,460	4,428,316
TOTAL ASSETS	\$ 5,670,639	\$ 5,896,868

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District Statement of Net Position December 31, 2014 & 2013

LIABILITIES

LIADILITIE	N I		
CURRENT LIABILITIES		<u>2014</u>	<u>2013</u>
Accounts Payable	\$	148,229	\$ 145,590
Customer Deposits		39,315	41,030
Customer Deposits - Accrued Interest (Note 5)		5,286	5,712
Accrued Sales Tax		586	378
Accrued School Tax		2,552	1,834
Accrued Payroll Tax		4,724	4,202
Accrued Pension Expense (Note 3)		2,817	2,823
Accrued Loan Interest Payable (Note 3)		29,031	29,031
Current Portion of Noncurrent Liabilities		21,000	-
Unearned Income		17,330	 5,633
TOTAL CURRENT LIABILITIES		270,870	 236,233
NONCURRENT LIABILITIES			
U.S. Department of Agriculture (Note 8)		1,858,000	1,858,000
Current Portion of Noncurrent Liabilities	_	(21,000)	 -
TOTAL NONCURRENT LIABILITIES	I	1,837,000	 1,858,000
TOTAL LIABILITIES		2,107,870	 2,094,233
NET POSITIC	ON		
Invested in Capital Assets, net of related debt		2,372,460	2,570,316
Unrestricted Net Assets		1,190,309	 1,232,319
TOTAL NET POSITION		3,562,769	 3,802,635
TOTAL LIABILITIES AND NET POSITION	\$	5,670,639	\$ 5,896,868

See Independent Auditor's Report The Accompanying Notes are an Integral Part of These Financial Statements

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Farmdale Water District Statement of Revenues, Expenses, and Changes in Net Position December 31, 2014 & 2013

OPERATING REVENUES	<u>2014</u>		
User Fees:	•		
Water - Residential	\$ 760,310	\$	638,565
Water - Commercial	93,012		78,118
Sewer Surcharge Fees	89,120		87,476
Tap-on Fees	4,912		4,215
Late Payment Penalty Income	35,816		35,252
Reconnect Fees	 9,081		7,576
TOTAL OPERATING REVENUES	992,251		851,202
OPERATING EXPENSES			
Water Purchased	506,732		446,570
Pumping Electricity	20,094		27,430
Payroll	180,520		167,792
Payroll Taxes	14,055		12,892
Employee Benefits	33,561		27,381
Retirement Benefits (Note 3)	26,147		28,369
Transmission and Distribution Expense	45,276		49,985
Administrative and General Expense	71,812		78,268
Interest Paid on Loans	58,062		-
Other Interest Expense	69		73
Water Testing	5,234		4,733
Maintenance & Repairs	19,129		13,394
Insurance & Workers' Comp	20,982		16,715
Taxes & Licenses	28,275		26,565
Fines	-		5,000
Bad Debts (Note 1)	3,829		2,835
Depreciation (Note 2)	 222,883		85,421
TOTAL OPERATING EXPENSES	1,256,660		993,423
Operating Income	 (264,409)		(142,221)

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District Statement of Revenues, Expenses, and Changes in Net Position December 31, 2014 & 2013

NONOPERATING REVENUES (EXPENSES)

Sewer Fees Collected		526,965	537,878
Sewer Fees Paid		(505,268)	(498,604)
Interest Income		2,068	2,585
Other Income		775	 2,254
TOTAL NONOPERATING REVENUES (EXPENSES)	_	24,540	44,113
Change in Net Position		(239,869)	(98,108)
Net Position - Beginning of Year		3,802,637	 3,900,745
Net Position - End of Year	\$	3,562,768	\$ 3,802,637

See Independent Auditor's Report The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District Statement of Cash Flows December 31, 2014 & 2013

Cash Flow from Operating Activities		<u>2014</u>		2013
Cash received from users and customers	\$	965,311	\$	755,319
Cash payments to employees for services & benefits		(254,283)		(236,434)
Cash payments to suppliers of goods and services		(694,159)		(953,914)
Net Cash Provided by Operating Activities		16,869		(435,029)
Cash Flow from Capital & Related Financing Activities				
Payoff of Regions Bank loan		-		(1,087,556)
Proceeds from Regions Bank loan		-		870,424
Purchase of equipment, net of work-in-process		(25,027)		(1,182,903)
Proceeds from federal loans				1,858,000
Interest paid on Loans		(58,131)		-
Net Cash Provided by Capital & Related Financing Activities		(83,158)		457,965
Cash Flow from Noncapital Financing Activities				
Cash received from other non-operating revenues		526,965		537,878
Other non-operating income		775		2,254
Cash paid out from other non-operating expenses		(516,302)		(498,604)
Net Cash Provided (Used) by Noncapital Financing Activities	-	11,438		41,528
Cash Flows from Investing Activities				
Receipt of Interest		2,068		2,585
Purchase of a Certificate of Deposit		-		(31,154)
Redemption of a Certificate of Deposit		65,339		30,000
Net Cash (Used) Provided by Investing Activities		67,407		1,431
Net Change in Cash and Cash Equivalents		12,556		65,895
Cash and Cash Equivalents, Beginning of Year	_	227,752	_	161,857
Cash and Cash Equivalents, End of Year	\$	240,308		227,752
Reconciliation of Cash and Cash Equivalents, End of Year				
Cash on hand	\$	75	\$	75
Cash Operations Account		175,700		145,626
Deposit account		36,653		35,662
Construction account		27,880		46,389
	\$	240,308	\$	227,752
	\$	240,308	\$	221,152

See Independent Auditor's Report The Accompanying Notes are an Integral Part of These Financial Statements

Farmdale Water District Statement of Cash Flows December 31, 2014 & 2013

Reconciliation of Operating Income to Net Cash Provided by Operation Activities		<u>2014</u>	<u>2013</u>
Operating Income	.\$	(264,409)	\$ (142,221)
Adjustment to Reconcile Net Income to Net Cash Provided by			
Operating Activities			
Depreciation		222,883	85,421
Bad Debts		3,829	2,835
Change in assets and liabilities			
Certificates of deposit		63,624	27,613
Accounts receivable		(17,529)	6,877
Inventory		(979)	(6,734)
Accrued interest receivable		(8)	179
Prepaid expenses		(4,179)	(2,440)
Accounts payable		2,639	(436,589)
Accrued payroll taxes payable		522	190
Customer deposits		(1,715)	2,415
Customer deposits - accrued interest		(426)	(549)
Accrued sales tax		208	81
Accrued school tax		718	407
Accrued pension expense		(6)	(762)
Unearned income		11,697	(783)
Accrued loan interest payable		-	29,031
Net Cash Provided by Operating Activities	\$	16,869	\$ (435,029)

See Independent Auditor's Report The Accompanying Notes are an Integral Part of These Financial Statements

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 & 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statutes 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Operating revenues relate to the District's primary function of the collection of water sales. Non-operating revenues relate to all other revenue.

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District writes off accounts deemed uncollectible resulting from the customer's failure to pay. The amount written-off for the years ended December 31, 2014 and 2013 totaled \$3,829 and \$2,835, respectively. Management believes the remaining balance to be collectable.

See Independent Auditor's Report

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 & 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management's estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

G. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. The District could be exposed to a credit risk if cash and cash equivalents ever exceed the FDIC insured amount of \$250,000 at one FDIC insured institution.

H. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10^{th} of the next month to pay their bill in full without the imposition of a penalty. After the 10^{th} , the customers have until the 20^{th} of the month to pay in full. If unpaid by the 20^{th} , the District turns off the customers' water.

I. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

J. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of \$1,000 in all three accounts at all times.

K. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled \$1,858,000.

See Independent Auditor's Report 20

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 & 2013

NOTE 2 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

A summary of property and equipment and depreciation for the years ended December 31, 2014 and 2013 is as follows:

			C	A	cumulated	
		Cost	Provision		$\underline{\mathbf{D}}$	epreciation
FY 2014	Property & Equipment	\$6,171,055	\$	222,883	\$	1,940,595
FY 2013	Property & Equipment	\$6,146,028	\$	85,421	\$	1,717,712

Land valued at \$4,806 is not being depreciated.

NOTE 3 - EMPLOYEE RETIREMENT

The District participates in the County Employees Retirement System (CERS), a qualified tax deferred retirement plan under I.R.C. 103 (b), established in 1958 under K.R.S.78.510 to 78.852. All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2014, the District contributed 18.89% from January – June and 17.67% thereafter. In 2013, the District contributed 19.55% from January through June and 18.89% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District's total contributions to the plan totaled \$26,147 and \$28,369 for fiscal years ended December 31, 2014 and 2013, respectively. The District owed the plan \$2,817 and \$2,823 at the end of 2014 and 2013, respectively.

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 & 2013

NOTE 3- EMPLOYEE RETIREMENT (continued)

A new accounting pronouncement has been issued by the Governmental Accounting Standards Board (GASB) to amend Statement No. 27 as it relates to Accounting and Financial Reporting for Pensions by governmental entities. This pronouncement requires the governmental entity to recognize the actuarial projected benefit obligation due to employees under a state sponsored defined benefit pension plan. The new accounting pronouncement requires the District to record a liability based on the actuarial projected benefit obligation. Under GAAP/USA a liability has been incurred if it is probable of payment and the amount can be measured. Management has acknowledged that this liability is probable of payment; however, the liability could not be measured as of December 31, 2014 or 2013, since the records needed to measure this liability reside with the Kentucky Retirement System (KRS).

The new GASB amendment is required to be implemented for periods beginning after June 15, 2013. KRS had indicated that they will provide a plan of implementation by December 31, 2013, and record the entry on the KRS accounting records by June 30, 2014. In addition, KRS will provide the state agencies and the District with a plan for implementation by December 31, 2014, and the state agencies and the District will be required to comply with the implementation plan by June 30, 2015. The liability is expected to be material and will be established with a charge to net assets and will reduce the District's net worth ratio. As of December 31, 2014, this information is still not available.

NOTE 4 - WATER STORAGE TANK PROJECT

The District was awarded a combination of state and federal funds to build a new storage tank and water lines for a portion of their service area. The District began the construction phase in the summer of 2012 and completed the project in November 2013. The District estimated a cost of \$3.39 million; the final cost was approximately \$3.53 million. The funding for this project included a \$1.858 million loan from the federal government Department of Agriculture, over \$1.22 million in Kentucky Infrastructure Grants and \$500,000 in District funds.

NOTE 5 - CUSTOMER DEPOSITS

New customers must pay a \$60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 & 2013

NOTE 5 - CUSTOMER DEPOSITS (continued)

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%. The estimated accrued interest on these deposits at December 31, 2014 & 2013 was \$5,286 and \$5,712, respectively.

NOTE 6 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service Commission, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2014 and 2013 by \$4,912 and \$4,215, respectively.

Both of these accounts are included in the net assets, if they had been segregated the Donated Capital - Tapping Fees would have had a balance in 2014 of \$577,052 and \$572,140 for 2013 and the Contributions in Aid of Construction would have totaled \$2,243,579 for both 2014 and 2013.

NOTE 7 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855 "Subsequent Events". The District evaluated events occurring between the end of its most recent year end and this report date, which is the date these financial statements were available to be issued. During this evaluation, management was informed that a civil lawsuit had been filed claiming negligence on the District's part causing substantial damage to a personal residence. Council does not opine on the probability of an outcome to the case. However, if the District were to lose this case, management believes damages would be covered by insurance.

See Independent Auditor's Report 23

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 & 2013

NOTE 8 - FEDERAL LOAN PAYABLE

In November, 2012, the District began drawing on a loan from Regions Bank in conjunction with the U.S. Department of Agriculture Rural Utility Service (RUS). The amount of loan funds available was \$1,668,000 with a subsequent RUS loan not to exceed \$190,000. The loan to Regions Bank was paid in full in March 2013 with the funds noted above from the U.S. Department of Agriculture.

Now closed, the District will pay the U.S. Department of Agriculture 3.125% for the life of the loan. The loan payments are interest only for 2013 and 2014 with principle payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit \$750 per month for the original loan and \$75 per month for the subsequent loan until such time the account reaches \$98,500. Management intends to open this account and begin the monthly set aside payments during 2015.

SUPPLEMENTAL INFORMATION

- - - N

FARMDALE WATER DISTRICT STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -BUDGET TO ACTUAL YEAR ENDED DECEMBER 31, 2014

1.1.1

					Variable Favorable	
Operating Revenues		Budget		Actual		favorable)
Water Sales - Residential	\$	692,561	\$	760,310	\$	67,749
Water Sales - Commercial		98,976		93,012		(5,964)
Late Payment Penalty Income		72,318		35,816		(36,502)
Miscellaneous Service Revenues		12,323		89,120		76,797
Other Water Revenues		36,745	-	13,993		(22,752)
Total Operating Revenues		912,923		992,251		79,328
Operating Expenses						
Salaries and Wages - Employees		155,000		163,580		(8,580)
Salaries and Wages - Commissioners		16,740		16,940		(200)
Medical Insurance		37,797		33,561		4,236
Retirement Benefits		35,400		26,147		9,253
Purchased Water		431,096		506,732		(75,636)
Materials & Supplies		38,305		35,868		2,437
Contractual Services - Engineering		-		-		-
Contractual Services - Testing		3,183		5,234		(2,051)
Contractual Services - Other		-				-
Transportation Expenses		29,255		13,474		15,781
Insurance - Vehicle						-
Insurance - General Liability		16,235		15,959		276
Insurance - Workers' Comp		4,306		5,023		(717)
Advertising Expense		121		902		(781)
Bad Debt Expense		1,500		3,829		(2,329)
Miscellaneous Expense		210,931		106,136		104,795
Depreciation Expense		108,250		222,883		(114,633)
Payroll Taxes		14,230		14,055		175
Taxes and Licenses		22,529		28,275		(5,746)
Total Operating Expenses		1,124,878		1,198,598	_	(73,720)
Net Income From Operations		(211,955)		(206,347)		5,608
Non-Operating Revenues (Expenses)						
Interest Income		3,575		2,068		(1,507)
Allowance for Funds Used During Construction		-		-		-
Sewer Income		638,886		526,965		(111,921)
Sewer Expense		(527,338)		(505,268)		22,070
Other Income		-		775		775
Interest on Long-Term Debt		(68,000)		(58,062)		9,938
Federal Grants & Customer Contributions		-				-
Total Non-Operating Revenues (Expenses)		47,123	_	(33,522)		(80,645)
Change in Net Position	\$	(164,832)	\$	(239,869)	\$	(75,037)

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

To the Board of Directors Farmdale Water District Frankfort, 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 the Farmdale Water District (District) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 27, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 Preparation of Financial Statements

Condition – As noted in the prior audit, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audit, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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*.

Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The District'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.

We noted certain matters that we reported to management of the District in a separate letter dated April 27, 2015.

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.

Harrod & Associates, PSC

Frankfort, KY 40601

April 27, 2015