

LARUE COUNTY WATER DISTRICT NO. 1

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2014 AND 2013

LARUE COUNTY WATER DISTRICT NO. 1

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Larue County Water District No. 1
Buffalo, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Larue County Water District No. 1 as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Larue County Water District No. 1, as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of a Matter

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that I accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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 the placing the basic financial statements in appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Larue County Water District No. 1's basic financial statements. Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules I and II are the responsibility of management and were derived from and relate 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, Schedules I and II are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Schedule III has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

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

John Carter + Associates

Certified Public Accountants
Elizabethtown, Kentucky
February 6, 2015

LARUE COUNTY WATER DISTRICT NO. 1STATEMENTS OF NET POSITIONDECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 201,980	\$ 261,159
Unrestricted investments	180,705	179,849
Accounts receivable, net	96,189	99,530
Unbilled receivables	65,000	62,811
Prepaid loan payment	14,532	14,531
Prepaid insurance	9,955	9,955
Materials and supplies	34,058	48,430
TOTAL CURRENT ASSETS	<u>602,419</u>	<u>676,265</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	561,611	463,891
Restricted investments	935,773	931,286
Non-depreciable capital assets	60,580	60,580
Depreciable Capital assets, net of accumulated depreciation	9,076,550	9,207,895
TOTAL NONCURRENT ASSETS	<u>10,634,514</u>	<u>10,663,652</u>
TOTAL ASSETS	<u>11,236,933</u>	<u>11,339,917</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	34,905	39,164
Payroll and other taxes payable	5,616	15,988
Accrued vacation	28,964	24,137
Accrued interest	284	284
Customer deposits	17,100	21,888
Note and bond payable	88,083	81,449
TOTAL CURRENT LIABILITIES	<u>174,952</u>	<u>182,910</u>
NONCURRENT LIABILITIES:		
Customer deposits	96,898	124,031
Note and bond payable	2,714,940	2,803,834
TOTAL NONCURRENT LIABILITIES	<u>2,811,838</u>	<u>2,927,865</u>
TOTAL LIABILITIES	<u>2,986,790</u>	<u>3,110,775</u>
<u>NET POSITION</u>		
Net investment in capital assets	6,273,527	6,322,612
Restricted net position	159,878	129,649
Unrestricted	1,816,738	1,776,881
TOTAL NET POSITION	<u>\$ 8,250,143</u>	<u>\$ 8,229,142</u>

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

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Water sales	\$ 1,463,202	\$ 1,398,764
Other operating income	24,801	20,714
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	1,488,003	1,419,478
OPERATING EXPENSES:		
Water purchased	411,465	369,910
Power purchased	27,753	24,980
Meter labor and expense	263,563	238,792
Bad debt	2,227	7,587
Repairs and maintenance	77,406	71,517
General and administrative expenses	258,830	242,654
Depreciation	348,911	421,262
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	1,390,155	1,376,702
OPERATING INCOME	97,848	42,776
NON-OPERATING REVENUES (EXPENSES):		
Interest income	6,960	7,752
Gain on disposal of capital assets	3,250	500
Interest expense on long-term debt	(103,907)	(113,856)
	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(93,697)	(105,604)
CAPITAL CONTRIBUTIONS	16,850	131,750
	<hr/>	<hr/>
CHANGE IN NET POSITION	21,001	68,922
NET POSITION , beginning of year	8,229,142	8,160,220
	<hr/>	<hr/>
NET POSITION, end of year	<u>\$ 8,250,143</u>	<u>\$ 8,229,142</u>

The accompanying notes are integral part of these financial statements.

LARUE COUNTY WATER DISTRICT NO. 1STATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,488,930	\$ 1,417,269
Payments to suppliers	(703,287)	(598,582)
Payments to employees	<u>(356,671)</u>	<u>(337,737)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	428,972	480,950
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	(81,488)	(55,385)
Acquisition and construction of capital assets	(218,314)	(161,636)
Sale of capital assets	4,000	-
Capital contributions	16,850	131,750
Prepayments of long-term debt	(14,532)	(14,531)
Interest on long-term debt	<u>(103,907)</u>	<u>(113,856)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(397,391)	(213,658)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	-	(125,000)
Interest income	<u>6,960</u>	<u>1,442</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>6,960</u>	<u>(123,558)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,541	143,734
CASH AND CASH EQUIVALENTS, beginning of year	<u>725,050</u>	<u>581,316</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 763,591</u></u>	<u><u>\$ 725,050</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 97,848	\$ 42,776
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	348,911	421,262
Provision for bad debts	2,227	7,587
Decrease in accounts receivable	9,528	4,998
(Increase) in unbilled receivables	(2,189)	(7,206)
Decrease(increase) in materials and supplies	14,372	(11,786)
Increase (decrease) in accounts payable	(4,259)	6,539
Increase (decrease) in customer deposits	(31,921)	11,571
(Decrease) increase in accrued taxes payable	(10,372)	1,633
Increase in accrued vacation	<u>4,827</u>	<u>3,576</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 428,972</u></u>	<u><u>\$ 480,950</u></u>

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

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Larue County Water District No. 1 was organized pursuant to the provision of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Larue County, Kentucky.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL STATEMENT AMOUNTS

1. Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2014 and 2013, accounts receivable was stated net of an allowance for uncollectible accounts of \$10,500 and \$10,275. Bad debt expense for each of the years ended December 31, 2014 and 2013 was \$2,227 and \$7,663. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
2. Materials and Supplies – Materials and supplies are composed of items used for the construction of capital projects.
3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.
4. Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-30

5. Amortization – Bond discounts and premiums are being amortized using the straight-line method over the life of each respective bond issue.
6. Cash Equivalents – For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
7. Compensation for Future Absences - Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.

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LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Claims and Judgments – These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.
9. Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.
10. Capital Contributions – Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
11. Long-term obligations are reported at face value, net of applicable premiums and discounts.
12. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.
13. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.
14. Net Position – Net position is divided into three components:
 - a. Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.
 - b. Restricted net position – consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
 - c. Unrestricted – all other net position is reported in this category.
15. Use of Estimates – The preparation of financial assets in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated net position, and disclosure of contingent assets and liabilities 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.

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LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 2 – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2014 and 2013, \$726,541 and \$675,631 of the District's bank balance of \$1,916,852 and \$1,860,253 was exposed to custodial credit risk. For 2014 and 2013, the entire amount exposed to custodial credit risk, the entire amount was collateralized by securities held by the pledging financial institution.

NOTE 3 – RESTRICTED CASH

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2014 and 2013:

Restricted For	December 31, 2014	December 31, 2013
Debt Service	\$ 159,878	\$ 129,694
Reserve & Depreciation	1,337,506	1,265,483
	\$ 1,497,384	\$ 1,395,177

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LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 4 – CAPITAL ASSETS

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2014, is summarized as follows:

	Balance 12/31/2013	Additions	Retirements	Balance 12/31/2014
Non-Depreciable Assets:				
Land and land rights	\$ 60,580	\$ -	\$ -	\$ 60,580
Depreciable Assets:				
Structures and improvements	253,455	15,893	-	269,348
Electric pumping equipment	186,562	11,103	-	197,665
Water Treatment Equipment	300	-	-	300
Standpipes and tanks	2,446,511	-	-	2,446,511
Transmission and distribution mains	9,483,268	92,110	-	9,575,378
Services	938,839	-	-	938,839
Hydrants	24,035	-	-	24,035
Office furniture and fixtures	83,741	8,671	-	92,412
Transportation equipment	119,640	22,464	(12,172)	129,932
Tool and shop equipment	110,080	-	(15,000)	95,080
Meters & Installation	391,962	68,075	-	460,037
Total capital assets being depreciated	<u>14,038,393</u>	<u>218,316</u>	<u>(27,172)</u>	<u>14,229,537</u>
Less accumulated depreciation for:				
Structures and improvements	(128,709)	(10,437)	-	(139,146)
Electric pumping equipment	(184,716)	(923)	-	(185,639)
Water Treatment Equipment	(300)	-	-	(300)
Standpipes and tanks	(476,799)	(55,501)	-	(532,300)
Transmission and distribution mains	(3,058,466)	(201,289)	-	(3,259,755)
Services	(518,203)	(26,254)	-	(544,457)
Hydrants	(19,048)	(178)	-	(19,226)
Office furniture and fixtures	(83,333)	(723)	-	(84,056)
Transportation equipment	(78,416)	(14,807)	12,172	(81,051)
Tool and shop equipment	(86,059)	(6,142)	14,250	(77,951)
Meters & Installation	(196,449)	(32,657)	-	(229,106)
Total accumulated depreciation	<u>(4,830,498)</u>	<u>(348,911)</u>	<u>26,422</u>	<u>(5,152,987)</u>
Total capital assets being depreciated, net	<u>9,207,895</u>	<u>(130,595)</u>	<u>(750)</u>	<u>9,076,550</u>
Capital assets, net	<u>\$ 9,268,475</u>	<u>\$ 87,721</u>	<u>\$ (750)</u>	<u>\$ 9,137,130</u>

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LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 4 – CAPITAL ASSETS (CONTINUED)

Plant and equipment costs and accumulated depreciation at December 31, 2013, is summarized as follows:

	Balance 12/31/2012	Additions / Reclassifications	Retirements	Balance 12/31/2013
Non-Depreciable Assets:				
Land and land rights	\$ 60,580	\$ -	\$ -	\$ 60,580
Depreciable Assets:				
Structures and improvements	253,455	-		253,455
Electric pumping equipment	186,562	-		186,562
Water Treatment Equipment	300	-		300
Standpipes and tanks	2,446,511	-		2,446,511
Transmission and distribution mains	9,105,382	377,886		9,483,268
Services	205,192	733,647		938,839
Hydrants	24,035	-		24,035
Office furniture and fixtures	83,741	-		83,741
Transportation equipment	93,895	38,780	(13,035)	119,640
Tool and shop equipment	85,717	24,363	-	110,080
Meters & Installation	1,427,804	(1,006,401)	(29,441)	391,962
Total capital assets being depreciated	<u>13,912,594</u>	<u>168,275</u>	<u>(42,476)</u>	<u>14,038,393</u>
Less accumulated depreciation for:				
Structures and improvements	(118,537)	(10,172)		(128,709)
Electric pumping equipment	(183,793)	(923)		(184,716)
Water Treatment Equipment	(300)	-		(300)
Standpipes and tanks	(421,298)	(55,501)		(476,799)
Transmission and distribution mains	(2,783,502)	(274,964)		(3,058,466)
Services	(172,500)	(345,703)		(518,203)
Hydrants	(18,870)	(178)		(19,048)
Office furniture and fixtures	(78,102)	(5,231)		(83,333)
Transportation equipment	(81,971)	(9,476)	13,031	(78,416)
Tool and shop equipment	(79,103)	(6,956)		(86,059)
Meters & Installation	(513,732)	287,842	29,441	(196,449)
Total accumulated depreciation	<u>(4,451,708)</u>	<u>(421,262)</u>	<u>42,472</u>	<u>(4,830,498)</u>
Total capital assets being depreciated, net	<u>9,460,886</u>	<u>(252,987)</u>	<u>(4)</u>	<u>9,207,895</u>
Capital assets, net	<u>\$ 9,521,466</u>	<u>\$ (252,987)</u>	<u>\$ (4)</u>	<u>\$ 9,268,475</u>

During the years ended December 31, 2014 and 2013, the District capitalized \$-0- and \$-0- of interest.

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LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 5 – LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds and notes payable authorized under Kentucky Revised Statutes. All assets of the District are pledged as collateral for these bonds. Bond maturities and Sinking Fund requirements in each of the next five years and in subsequent five year increments are as follows:

<u>Year</u>	<u>Note and Bond Payable</u>		<u>Sinking Fund</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2015	88,083	100,433	188,516
2016	88,500	98,392	186,892
2017	93,083	96,341	189,424
2018	94,000	93,359	187,359
2019	98,583	90,279	188,862
2020-2024	549,832	399,377	949,209
2025-2029	646,833	289,841	936,674
2030-2034	637,916	158,516	796,432
2035-2039	378,003	49,527	427,530
2040-2044	44,333	13,098	57,431
2045-2049	48,500	6,918	55,418
2050-2051	20,500	839	21,339
Total	\$ 2,788,166	\$ 1,396,920	\$ 4,185,086

Changes in long-term obligations during the year ended December 31, 2014 were:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Due</u>
	<u>12/31/2013</u>			<u>12/31/2014</u>	<u>Within</u>
					<u>One Year</u>
Bonds and notes payable:					
Revenue Bonds Payable	\$ 245,000	\$ -	\$ (3,500)	\$ 241,500	\$ 3,500
Note Payable	2,624,615	-	(77,949)	2,546,666	84,583
Unamortized Premium	15,668	-	(811)	14,857	-
Total bonds and notes payable	2,885,283	-	(82,260)	2,803,023	88,083
Other Liabilities:					
Customer Deposits	145,919	-	(31,921)	113,998	17,100
Long-Term Liabilities	\$ 3,031,202	\$ -	\$ (114,181)	\$ 2,917,021	\$ 105,183

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LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term obligations during the year ended December 31, 2013 were:

	Balance 12/31/2012	Additions	Reductions	Balance 12/31/2013	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	\$ 245,000	\$ -	\$ -	\$ 245,000	\$ 3,500
Note Payable	2,680,000	-	(55,385)	2,624,615	77,949
Unamortized Premium	16,476	-	(808)	15,668	-
Total bonds and notes payable	2,941,476	-	(56,193)	2,885,283	81,449
Other Liabilities:					
Customer Deposits	134,348	11,571	-	145,919	21,888
Long-Term Liabilities	<u>\$ 3,075,824</u>	<u>\$ 11,571</u>	<u>\$ (56,193)</u>	<u>\$ 3,031,202</u>	<u>\$ 103,337</u>

Information relating to the outstanding bond issues is summarized below:

Date of Issue	Interest Rate	Original Amount of Each Issue	Note Payable and Bonds Outstanding December 31,	
			2014	2013
2012 Bond Series A	2.75%	\$ 245,000	\$ 241,500	\$ 245,000
2012 Note Series A	2.0 - 3.625	2,680,000	2,546,666	2,624,615

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

Revenue Fund

All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

Bond Reserve Fund

This fund shall receive \$1,605, a monthly rental, until an amount of \$204,300 is reached. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. This account was fully funded at December 31, 2014 and 2013. The bond and interest redemption funds and bond reserve fund are maintained together in a single bank account and certificates of deposit.

(Continue next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)Operation and Maintenance Fund

This fund receives, on a monthly basis, 90% of the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Reserve Fund.

Depreciation Fund

This fund receives, on a monthly basis, 10% of the remaining balance in the Revenue Fund after the above transfers have been made and the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment. This account is funded until it reaches a balance of \$25,500. This account was fully funded at December 31, 2014 and 2013.

Full-time employees of the District are entitled to paid vacation and paid personal days depending upon length of service. Personal days must be used within the period earned. Vacation days may be carried forward.

NOTE 6 - RETIREMENT PLAN

Plan Description – The District participates in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provision are established by statute.

Funding Policy- Plan members who began participation before September 1, 2008 are required to contribute 5 percent of their annual covered salary and plan members who began participation on or after September 1, 2008 are required to contribute 6 percent of their annual covered salary. The District is required to contribute at an actuarially determined rate. The contribution rates at December 31, 2014, 2013 and 2012 were 17.67%, 18.89%, and 19.55% of covered payroll. The District's contribution to CERS for the years ended December 31, 2014, 2013 and 2012 was \$50,182, \$47,856 and \$41,500. The District contributed the required percentage for the years ended December 31, 2014, 2013 and 2012.

Benefits fully vest on reaching five years of service for employees. Aspects of benefits for employees include retirement after 27 years of service or age 65. Employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 6 – RETIREMENT PLAN (CONTINUED)

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member Through Payroll Deduction
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, employees whose participation began on or after July 1, 2003 earn ten dollars per month insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

NOTE 7 - MAJOR SUPPLIERS

The District purchases water for resale from approximately six suppliers with Hodgenville Waterworks, Bardstown Water District and Green River Valley Water District accounting for approximately ninety percent of the water supplied. Inability to obtain water from any of these suppliers could have a materially adverse effect on the District.

NOTE 8 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2014 and 2013:

Source	2014	2013
Rural Development	-	105,000
Tap Fees	16,850	26,750
	<u>\$ 16,850</u>	<u>\$ 131,750</u>

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District was insured for workers' compensation, general liability coverage under a retrospectively rated commercial policy.

(Concluded)

SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTSDECEMBER 31, 2014

	2012 SERIES A BOND PAYABLE		2012 SERIES F NOTE PAYABLE	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2015	3,500	6,641	84,583	93,792
2016	3,500	6,545	85,000	91,847
2017	3,500	6,449	89,583	89,892
2018	4,000	6,353	90,000	87,006
2019	4,000	6,243	94,583	84,036
2020	4,000	6,133	99,583	81,786
2021	4,000	6,023	100,000	77,662
2022	4,500	5,912	104,583	73,362
2023	4,500	5,789	109,583	70,188
2024	4,500	5,665	114,583	66,857
2025	5,000	5,541	119,583	63,362
2026	5,000	5,404	124,583	58,340
2027	5,000	5,266	129,583	52,983
2028	5,500	5,129	139,167	47,411
2029	5,500	4,978	107,917	41,427
2030	5,500	4,826	114,167	36,786
2031	6,000	4,675	119,583	31,877
2032	6,000	4,428	120,000	26,735
2033	6,000	4,345	124,583	22,537
2034	6,500	4,180	129,583	18,127
2035	6,500	4,001	134,583	13,378
2036	7,000	3,823	89,167	8,278
2037	7,000	3,630	39,167	4,792
2038	7,500	3,438	39,586	3,255
2039	7,500	3,231	40,000	1,701
2040	7,500	3,025	3,333	131
2041	8,000	2,819		
2042	8,000	2,599		
2043	8,500	2,379		
2044	9,000	2,145		
2045	9,000	1,898		
2046	9,500	1,650		
2047	9,500	1,389		
2048	10,000	1,128		
2049	10,500	853		
2050	10,500	564		
2051	10,000	275		
	<u>\$ 241,500</u>	<u>\$ 149,372</u>	<u>\$ 2,546,666</u>	<u>\$ 1,247,548</u>

LARUE COUNTY WATER DISTRICT NO. 1SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31,	
	<u>2014</u>	<u>2013</u>
Retirement expense	\$ 50,182	\$ 47,856
Insurance - health	47,753	40,289
Auto expense	38,294	37,325
Office supplies and postage	23,681	24,132
Payroll expense	18,961	17,453
Other general and administrative	24,512	17,292
Insurance - general liability	13,818	14,790
Professional fees	11,775	13,985
Insurance - workmens' compensation	12,430	11,573
Commissioners' salaries	10,800	10,800
Regulatory commission expense & other taxes	4,512	4,419
Training	2,112	2,740
	<u>\$ 258,830</u>	<u>\$ 242,654</u>

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2014

WATER COMMISSIONERS

John Detre – Chairman
Pat Eastridge – Secretary/Treasurer
Bobby Garrison – Member

ATTORNEY

Damon R. Talley - Hodgenville, Kentucky

APPROVING BOND COUNSEL

Rubin & Hays - Louisville, Kentucky

CALENDAR YEAR

January 1 to December 31

INTERNAL CONTROL AND FISCAL COMPLIANCE

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Commissioners
Larue County Water District No. 1
Buffalo, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Larue County Water District No. 1, as of and for the year ended December 31, 2014, and have issued our report thereon dated February 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Larue County Water District No. 1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Larue County Water District No. 1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiencies described in items 2014-01, 2014-02, and 2014-03 in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Larue County Water District No. 1's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of 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*.

Larue County Water District No.1's Response to Findings

Larue County Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Larue County Water District No. 1's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended 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 District'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.

Stiles, Carter + Associates

Certified Public Accountants
Elizabethtown, Kentucky
February 6, 2015

LARUE COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

REFERENCE NUMBER 2014-01 PREPARATION OF FINANCIAL STATEMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

Cause: The District has financial personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Management Response: The District has made strides in this area and is continuously working to obtain the goal of current personnel being able to adequately prepare the financial statements.

REFERENCE NUMBER 2014-02 FINANCIAL STATEMENT PRESENTATION

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

Cause: The District has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Management Response: It would be beneficial to have financial training.

REFERENCE NUMBER 2014-03 SEGREGATION OF DUTIES

Criteria: The District's management is responsible for establishing and maintaining proper segregation of duties. In order to maintain proper segregation of duties District requires two signatures on checks for certain disbursements. Due to the limited number of personnel the District requires the signature of a commissioner on said checks along with the District's management.

Condition: As part of the audit we noted there were blank checks signed by a commissioner kept at the District. The checks contained only the signature of the commissioner.

Cause: The District had blank checks signed by commissioner so that items could be paid in the commissioner's absence.

Effect: The signature policy was not followed which could result in unapproved disbursements.

Recommendation: We recommend that checks be signed by the commissioner after the date; amount and vendor fields have been completed. Additionally, the invoice that supports the check should be present with the check at the time the commissioner signs the check.

Management Response: Management will bring this item before the board for further review.