

NORTH NELSON WATER DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED DECEMBER 31, 2014

**NORTH NELSON WATER DISTRICT
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2014**

Independent Auditor's Report	1
Management's Discussion and Analysis	2-6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Fund Net Assets – Proprietary Fund.....	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets- Proprietary Funds	8
Statement of Cash Flows – Proprietary Funds.....	9-10
Notes to Basic Financial Statements	11-17
Supplementary Information	18
Schedule I – Operating Expenses Proprietary Funds.....	19
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	20-21
Schedule of Findings and Responses	22

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

442 East Stephen Foster Avenue - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
North Nelson Water District
Cox's Creek, Kentucky 40013

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General to the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of North Nelson Water District as of December 31, 2014, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2015 on our consideration of the North Nelson Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and matters. The purpose of that report is to describe the scope of our testing of an opinion on the 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Brown & Company, CPA's

Bardstown, Kentucky
February 10, 2015

NORTH NELSON WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED DECEMBER 31, 2014

Our discussion and analysis of North Nelson Water District's (hereinafter referred to as the "District") financial performance provides an overview of the District's financial activities for the year ended December 31, 2014. Please review it in conjunction with the District's basic financial statements, which begins on page 7.

FINANCIAL HIGHLIGHTS

- The combined ending balances of cash on hand and cash in the operating account was \$128,853.
- Assets of the District exceeded its liabilities at December 31, 2014, by \$8,882,441 (net assets). Of this amount, \$1,066,570 is unrestricted and may be used to meet the District's ongoing obligations.
- Total net assets increased \$442,055, which represents a 5.24% increase in total net assets from 2013.
- Operating revenues in the form of charges for services accounted for \$1,393,262 or 96% of all revenues.
- The unreserved, undesignated fund net assets represented 78% of total operating expenses.
- The District's total debt consists of revenue bonds issued to finance the construction of water lines. The District's total debt decreased by \$75,000 during the current year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements comprise fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The District is a special-purpose government entity engaged in only a single activity. Therefore, the District presents only a single set of basic financial statements: 1) the Statement of Fund Net Assets, 2) the Statement of Revenues, Expenses, and Changes in Fund Net Assets, and 3) the Statement of Cash Flows. These basic financial statements provide both long-term and short-term information about the District's overall financial status, as well as reporting the District's operations in detail. The District's fund is a proprietary fund, which presents financial information about the activities of the District in a manner similar to private sector companies.

The financial statements also provide notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplementary information that further supports the information in the financial statements.

Reporting on the District as a whole

The basic financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Fund Net Assets includes all of the District's assets (what the District owns) and liabilities (what the District owes). The Statement of Revenues, Expenses, and Changes in Fund Net Assets include all of the current year's revenues and expenses regardless of when cash is received or paid. These statements allow analysis of the District's net assets (the difference between assets and liabilities) as one-way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors, such as changes in the District's service area, the availability of government support for capital projects, and the local economic picture to assess the overall health of the District.

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2014**

Reporting the District's Fund

Proprietary Fund: The District uses a proprietary fund – the enterprise fund- to report its services provided to customers for a fee. The enterprise fund focuses on how money flows into and out of a set of accounts and establishes balances left at year-end that are available for spending. This fund is reporting using an accounting method called accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. Enterprise fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance District operations.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 11-17 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents a schedule of operating expenses, which can be found on page 19 of this report.

The District as a Whole

The Districts total net assets changed from a year ago, increasing from \$8,440,386 to \$8,882,441. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District.

**Table 1
Net Assets (In Thousands)**

	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
Current And Other Assets	\$ 2,578	\$ 2,615	Net Assets		
Capital Assets	7,760	7,362	Invested In Capital Assets		
			Net Of Related Debt	\$ 6,242	\$ 5,723
Total Assets	<u>10,338</u>	<u>9,977</u>	Restricted	1,574	1,521
Long-Term Obligations	\$ 1,265	\$ 1,340	Unrestricted	1,066	1,196
Other Liabilities	191	197	Total Net Assets	<u>\$ 8,882</u>	<u>\$ 8,440</u>
Total Liabilities	<u>\$ 1,456</u>	<u>\$ 1,537</u>			

Net assets of the District's activities increased 5.23% or \$442,055. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$1,196,284 to \$1,066,570 at the end of 2014.

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2014**

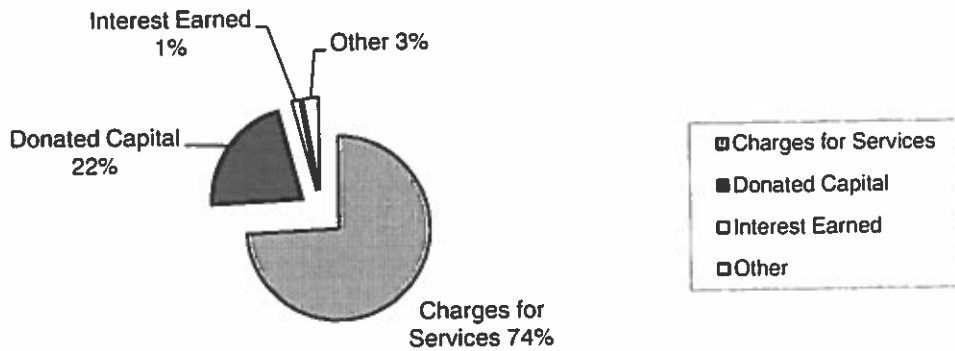
Table 2 compares the 2014 change in net assets to the 2013 change in net assets.

**Table 2
Changes In Net Assets For 2014
Compared With 2012 Activity (In Thousands)**

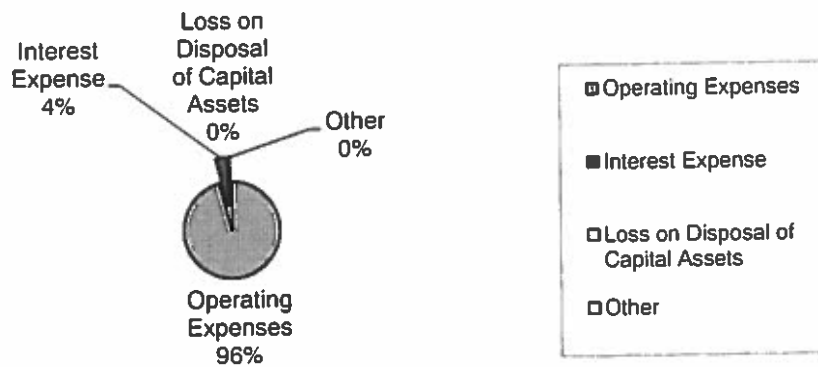
	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Program Revenues			
Charges For Services	\$ 1,393	\$ 1,316	5.85%
Donated Capital	406	53	666.04%
Total Program Revenues	\$ 1,799	\$ 1,369	31.41%
Other Revenues			
Interest Earned	\$ 27	\$ 28	-3.57%
Other	51	70	-27.14%
Total Other Revenues	\$ 78	\$ 98	-20.41%
Total Revenues	\$ 1,877	\$ 1,467	27.95%
Program Expenses			
Operating Expenses	\$ 1,374	\$ 1,334	3.00%
Interest Expense	52	53	-1.89%
Other Expenses	9	5	80.00%
Total Program Expenses	\$ 1,435	\$ 1,392	3.09%
Increases In Net Assets	\$ 442	\$ 75	489.33%

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2014**

2014 Revenues



2014 Expenses



The District is not legally required to adopt a budget. Therefore, budgetary comparison information is not presented in this analysis nor in the basic financial statements or supplementary information.

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2014**

Capital Assets and Debt Administration

Capital Assets

At year-end, the District had \$7,581,536 invested in a range of capital assets net of depreciation as shown below in Table 3. The total increase in this net investment was 6.2% attributed to completion of four system projects during the year less depreciation.

**Table 3
Capital Assets
Net Of Accumulated Depreciation
(In Thousands)**

	2014	2013	% Change
Land And Land Rights	\$ 90	\$ 90	0.00%
Structures And Improvements	354	407	-13.02%
Water Lines And System	11,549	10,846	6.48%
Office Furniture And Equipment	33	33	0.00%
Transportation Equipment	66	71	-7.04%
Other	13	13	0.00%
Totals At Historical Costs	\$ 12,105	\$ 11,460	5.63%
Accumulated Depreciation	(4,524)	(4,322)	4.67%
Net Capital Assets	\$ 7,581	\$ 7,138	6.21%

Long-Term Debt

At the year-end, the District had total revenue bonds outstanding of \$1,340,000. Revenue bonds are supported by pledged revenues generated by the District's operations.

Economic Factors

The District has operated in Nelson, Spencer and Bullitt Counties, Kentucky for a number of years. At year-end, the District has no plans to expand its services beyond its current service areas. However, the District does anticipate new customers within its current service areas, as has been its historical experience. The District also has no current plans for any rate increases in the upcoming fiscal year.

Request For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District Manager, 5555 Louisville Road, Cox's Creek, Kentucky 40013-0025 or by telephone at 502-348-8342.

**NORTH NELSON WATER DISTRICT
STATEMENT OF FUND NET ASSETS- PROPRIETARY FUND
DECEMBER 31, 2014**

	<u>Enterprise Fund</u>
Assets	
<u>Current Assets</u>	
Cash On Hand & In Banks	\$ 128,853
Certificates Of Deposit	655,126
Accounts Receivable	147,887
Accrued Interest Receivable	3,376
Inventory	61,736
Prepaid Insurance	6,371
Total Current Assets	<u>\$ 1,003,349</u>
<u>Restricted Assets</u>	
Cash In Banks	\$ 237,500
Certificates Of Deposit	1,336,835
Total Restricted Assets	<u>\$ 1,574,335</u>
<u>Noncurrent Assets</u>	
Capital Assets, Net Of Accumulated Depreciation	\$ 7,581,536
Notes Receivable	51,828
Unamortized Bond Discount	126,915
Total Noncurrent Assets	<u>\$ 7,760,279</u>
Total Assets	<u>\$ 10,337,963</u>
Liabilities & Net Assets	
<u>Current Liabilities</u>	
Accounts Payable	\$ 53,419
Other Current Liabilities	9,800
Accrued Interest Payable On Bonds Payable	16,810
Revenue Bonds Payable, Current	75,000
Total Current Liabilities	<u>\$ 155,029</u>
<u>Liabilities Payable From Restricted Assets</u>	
Accrued Interest On Customer Deposits	\$ 260
Customer Deposits	35,233
Total Liabilities Payable From Restricted Assets	<u>\$ 35,493</u>
<u>Noncurrent Liabilities</u>	
Noncurrent Portion Of Bond Obligations	\$ 1,265,000
Total Noncurrent Liabilities	<u>\$ 1,265,000</u>
Total Liabilities	<u>\$ 1,455,522</u>
<u>Net Assets</u>	
Invested In Capital Assets, Net Of Related Debt	\$ 6,241,536
Restricted	1,574,335
Unrestricted	1,066,570
Total Net Assets	<u>\$ 8,882,441</u>

See independent auditor's report and accompanying notes to financial statements.

**NORTH NELSON WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Enterprise Fund
Operating Revenues:	
Charges For Services:	
Metered Sales To General Customers	\$ 1,393,262
Forfeited Discounts	18,456
Miscellaneous	7,443
Other Water Revenues	24,321
Total Operating Revenues	\$ 1,443,482
Operating Expenses:	
Wages & Benefits	\$ 248,081
Maintenance & Operations	759,305
Materials & Supplies	62,667
Depreciation	286,740
Taxes & Licenses	17,448
Total Operating Expenses	\$ 1,374,241
Income (Loss) From Operations	\$ 69,241
Non-Operating Revenues (Expenses):	
Interest Income	\$ 27,204
Gain or (Loss) on Sale of Assets	(3,251)
Amortization Of Bond Discount & Issue Costs	(5,228)
Interest Expense	(51,899)
Total Non-Operating Revenues (Expenses)	\$ (33,174)
Income (Loss) Before Contributions	\$ 36,067
Capital Contributions In Aid Of Construction:	
Customers	\$ 74,719
State & Local Governments	331,269
Total Capital Contributions In Aid Of Construction	\$ 405,988
Change In Net Assets	\$ 442,055
Net Assets, January 1	8,440,386
Net Assets, December 31	\$ 8,882,441

See independent auditor's report and accompanying notes to financial statements.

**NORTH NELSON WATER DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Cash Flows From Operating Activities	\$ 1,350,710
Cash Received From Customers	\$ 1,350,710
Cash Paid To / For:	
Operations	(768,499)
Supplies	(62,667)
Employees	(248,081)
Taxes & Licenses	(17,448)
Other Operating Revenues	<u>50,220</u>
Net Cash Provided By Operating Activities	<u>\$ 304,235</u>
 Cash Flows From Capital & Related Financing Activities	 \$ (733,390)
Acquisition Of Capital Assets	\$ (733,390)
Acquisition Of Bond Procurement Expenses	-
Principal Paid On Revenue Bonds	(75,000)
Interest Paid On Revenue Bonds	(51,899)
Principal Received On Notes Receivable	40,032
Capital Contributions	<u>405,988</u>
Net Cash Provided (Used) By Capital & Related Financing Activities	<u>\$ (414,269)</u>
 Cash Flows From Investing Activities	 \$ 27,204
Investment Income	<u>\$ 27,204</u>
Net Cash Provided (Used) By Investing Activities	<u>\$ 27,204</u>
 Net Increase (Decrease) In Cash & Cash Investments	 \$ (82,830)
 Cash & Cash Investments, Beginning Of Year	 <u>2,441,144</u>
Cash & Cash Investments, End Of Year	<u><u>\$ 2,358,314</u></u>
 Classified as:	
Unrestricted-	
Cash On Hand And In Banks	\$ 128,853
Certificates Of Deposit	655,126
Restricted	
Cash In Banks	237,500
Certificates Of Deposit	<u>1,336,835</u>
Total Cash And Cash Investments	<u><u>\$ 2,358,314</u></u>

See independent auditor's report and accompanying notes to financial statements.

**NORTH NELSON WATER DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Enterprise Fund
<u>Reconciliation Of Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:</u>	
Operating Income (Loss)	\$ 69,241
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:	
Depreciation	286,740
Changes In Assets And Liabilities:	
(Increase) Decrease In Accounts Receivable	(41,660)
(Increase) Decrease In Inventory	(3,845)
(Increase) Decrease In Prepays	328
Increase (Decrease) In Accounts Payable	(1,519)
Increase (Decrease) In Other Current Liabilities	(2,663)
Increase (Decrease) In Accrued Interest Payable	(1,495)
Increase (Decrease) In Customer Deposits Liability	(892)
Total Adjustments	234,994
Net Cash Provided (Used) By Operating Activities	\$ 304,235

See independent auditor's report and accompanying notes to financial statements.

**NORTH NELSON WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Note A - Summary of Significant Accounting Policies

The North Nelson Water District (the "District") was created by an order entered by the County Court of Nelson County, Kentucky, on June 10, 1965, and exists as a statutory water district under KRS Chapter 74. The District provides water service to customers in a defined area in Nelson, Bullitt and Spencer Counties, Kentucky. The District is regulated as a Class A water district by the Public Service Commission of Kentucky.

The District is governed by a Board of Commissioners ("Board") that acts as the authoritative body of the entity. The Board is comprised of three members, all of which are voting members. Each member is appointed by the Nelson County Fiscal Court for a term of four years with no limit on reappointments. The Board appoints a District manager to oversee day-to-day operations of the District.

The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. There are no component units included within the reporting entity.

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, including statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local governments, which mandates the new reporting model implemented by the District, and Statement No. 38, Certain Financial Statement Disclosures, which changes note disclosure requirements for governmental entities. The following is a description of the District's more significant accounting policies used in preparing its financial statements.

Entity-Wide and Fund Financial Statements- The financial statement presentation for the District includes only a single set of financial statements, as the District is a special-purpose government entity engaged in only a single activity. These financial statements present both an entity-wide and detailed fund financial presentation of the activities of the District.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation- The financial statements are reported using the economic resources measurement focus and the accrual basis accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Furthermore, both long-term and current assets and liabilities are included in the financial statements. Day-to-day financial records are maintained according to the Uniform System of Accounts for Class A Water Districts and Associations as prescribed by the Public Service Commission of the Commonwealth of Kentucky.

The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District is a special-purpose government engaged in only a single business-type activity and, therefore, reports only an enterprise fund as described below.

The Enterprise fund accounts for operations that are financed and operated in a manner similar to private business enterprises. Principal operating revenues for the enterprise fund are charges for water sold to customers. Principal operating expenses are the cost of administering the activities of the District on a continuing basis and include personnel expenses, purchased water, administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**NORTH NELSON WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Note A - Summary of Significant Accounting Policies - continued

Cash and Cash Equivalents- Cash and Cash Equivalents include demand deposits as well as all highly liquid temporary cash investments regardless of maturity dates and including restricted assets. Temporary cash investments (certificated of deposit) are stated at cost plus any periodic interest that has been credited to the account. Carrying amounts at December 31, 2014, approximate fair value.

Allowance for Uncollectible Accounts- At December 31, 2014, management deemed all accounts receivable collectible. Therefore, no allowance for doubtful accounts is included in the balance sheet. Accounts previously deemed uncollectible during the year ended December 31, 2014, were charged to operations as bad debt expense.

Inventories- Inventories of materials and supplies are stated at lower of cost or market (first-in, first-out). Market value is considered as the net realizable value. They are recorded as expenditures at the time individual inventory items are used.

Capital Assets- All capital assets are capitalized at historical cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$500. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Structures And Improvements	10-40 years
Distribution Reservoirs And Standpipes	40 years
Transmission And Distribution Mains, Services, Meters And Installations	40 years
Hydrants	40 years
Office Furniture And Equipment	5-10 years
Transportation Equipment	5 years
Tools And Shop Equipment	5 years
Communication Equipment	5 years

Deferred Debt Expense and Bond Discount- Bond issuance costs and bond discounts are capitalized and amortized over the terms of the respective bonds using the straight-line method, which approximates the effective interest method.

Contributions in Aid of Construction- Payments received for construction purposes, including federal, state, and local grants, tap-on fees and contributions from customers have been included in income as proceeds from capital contributions in aid of construction. These amounts are closed to Net Assets-Donated Capital at the end of each year and the cumulative balance is classified on the Statement of Fund Net Assets as Net Assets-Donated Capital.

**NORTH NELSON WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Note A - Summary of Significant Accounting Policies - continued

Net Assets- Net Assets present the difference between assets and liabilities in the statement of fund net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Estimates- The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting- The District's annual budget is a management tool that assists its management and governing board in analyzing financial activity for its fiscal year. The budget is not a legally required or adopted budget.

Note B - Deposits- Concentration of Credit Risk

The District maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000 for the aggregate of all time and savings accounts at the institution and up to an additional maximum of \$250,000 for the aggregate of all demand deposit accounts at the institution. At December 31, 2014, the District had \$2,358,314 total cash in financial institutions of which \$2,358,314 was insured by FDIC coverage and \$0 was uncollateralized and uninsured.

Note C - Customer Accounts Receivable

Accounts receivable from customers as of December 31, 2014 was \$147,887.

Note D - Notes Receivable

As part of the District's extension of water lines in Bullitt County, Kentucky, customers were permitted to finance the required customer contribution in aid of construction amount of \$2,500 per service over a 120-month period bearing interest at a rate of 7% per annum and due in monthly installments of \$29. Such notes receivable are secured by a lien against the customer's property in such that, in the event the customer sells the property before the note is paid in full, the entire outstanding balance of the note receivable will be due and payable at the time of sale and will be disbursed from the sale proceeds. This financing arrangement is available to any customer connecting to the water lines in this extension for a period of ten years after the project completion date. At December 31, 2014, the Bullitt County project notes receivable had a balance of \$45,124, all of which is deemed collectible by the District's management.

As part of the District's extension of water lines on Highway 48, customers were permitted to finance the required \$2,500 contribution in aid of construction over a 120-month period bearing interest at a rate of 6% per annum and due in monthly installments of \$27.76. Such notes receivables are secured by a lien against the customer's property as described in the preceding paragraph. The Highway 48 project notes receivable had a balance of \$6,704 at December 31, 2014, all of which is deemed collectible by the District's management.

**NORTH NELSON WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Note E - Restricted Assets

Restricted assets (demand deposit accounts and certificated of deposit) have been established by the District to provide funds for specific payments. Restricted assets consist of the following at December 31, 2014:

	<u>Cash In Bank</u>	<u>Certificates Of Deposit</u>	<u>Totals</u>
System Development Charge Fund	\$ 31,984	\$ 395,999	\$ 427,983
Depreciation Reserve Fund	-	77,070	77,070
Debt Service Sinking Fund	99,562	-	99,562
Membership Deposits Fund	10,738	26,557	37,295
Construction Fund	95,216	837,209	932,425
Total Restricted Assets	\$ 237,500	\$ 1,336,835	\$ 1,574,335

The **System Development Charge (SDC) Fund** was established for the purpose of accounting separately for all SDCs collected, which must be used solely for the projects for which the fee was collected. Funds from the account are to be used exclusively to fund growth-related capital projects.

The **Depreciation Reserve Fund** was established in accordance with bond indentures for the purpose of (1) paying the cost of unusual or extraordinary maintenance and repairs, (2) paying the cost of constructing extensions, additions or improvements to the system, and (3) if necessary, paying principal and interest on water and revenue bonds.

The **Debt Service Sinking Fund** was established to accumulate funds for the payment of principal and interest on water revenue bonds as they become due.

The **Membership Deposits Fund** was established to segregate amounts deposited with the District by customers as security for the payment of bills.

The **Construction Fund** was established to aid in the record keeping for any large projects undertaken by the District.

Amounts payable from the preceding restricted Membership Deposits Fund assets at December 31, 2014, are as follows:

Accrued Interest Payable	\$ 260
Customer Deposits	<u>35,233</u>
Total	<u>\$ 35,493</u>

Note F - Interest on Customer Deposits

KRS 278.460 requires public utilities to pay interest on amounts required to be deposited by customers to secure utility service. KRS 278.460, as amended in 2012, requires the PSC to calculate in December of each year the maximum interest rate that utilities shall pay on customer deposits during the following calendar year. A water district shall pay the lesser of either the rate it earns on its interest-bearing accounts where customer deposits are held or the maximum rate set by the PSC. The maximum rate set by the PSC for calendar year 2014 was 0.18%. Since the District earned a higher interest rate, it paid interest on customer deposits at the maximum rate set by PSC. OAG 83-224, which was adopted by the District in 1988, requires that such interest be compounded. This interest along with the deposit principal is paid to customers or credited to customer's bills monthly, except that no refund or credit will be made if a customer's bill is delinquent on the anniversary date of the deposit. Upon termination of service, the deposit and any accrued interest will be credited to the final bill with any remainder refunded to the customer.

**NORTH NELSON WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Note G - Capital Assets

The following table provided a summary of changes in capital assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Assets Not Depreciated:				
Land And Land Rights	\$ 89,481	\$ -	\$ -	\$ 89,481
Assets Depreciated:				
Structures And Improvements	406,970	-	53,583	353,387
Reservoirs And Standpipes	606,128	-	29,748	576,380
Transmission And Distribution Mains	9,123,801	733,390	-	9,857,191
Services	48,577	-	-	48,577
Meters And Installations	1,066,784	-	-	1,066,784
Hydrants	1,707	-	-	1,707
Office Furniture And Equipment	33,452	-	-	33,452
Transportation Equipment	70,532	-	3,919	66,613
Tools And Shop Equipment	782	-	-	782
Communication Equipment	11,889	-	362	11,527
Total Assets Depreciated	<u>11,370,622</u>	<u>733,390</u>	<u>87,612</u>	<u>12,016,400</u>
Accumulated Depreciation	(4,321,967)	(286,740)	(84,362)	(4,524,345)
Net Assets Depreciated	<u>7,048,655</u>	<u>446,650</u>	<u>3,250</u>	<u>7,492,055</u>
Total Capital Assets, Net	<u>\$ 7,138,136</u>	<u>\$ 446,650</u>	<u>\$ 3,250</u>	<u>\$ 7,581,536</u>

Note H - Revenue Bonds Payable

Bond indentures contain significant requirements for annual debt service and flow of funds through restricted accounts. Specifically, the bond indentures require the use of a debt service (sinking) fund for the payment of bond principal and interest, a debt service reserve fund, and a depreciation reserve fund for the purpose of accumulating a reserve to pay for additions to or improvements to the District's capital assets. The sinking fund requirements consist of a monthly transfer of funds to a separate restricted account equivalent to 1/6 of the interest next due plus 1/12 of the principal next due. Debt service reserve is maintained at the lesser of three specified amounts for the purpose of paying principal and interest on outstanding bonds if insufficient funds are available in the sinking fund. The depreciation reserve fund requires monthly fixed transfers to a separate restricted account until a minimum reserve funding level as specified by the bond indentures is reached. The District is in compliance with all significant requirements of the various bond covenants as of and for the year ending December 31, 2014.

Bonds payable at December 31 are comprised of the following individual issue:

\$1,340,000 Water Revenue Bonds due in annual installments ranging from \$50,000 to \$120,000 through February 1, 2028; interest from 2.250% to 4.375%.

**NORTH NELSON WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Note H - Revenue Bonds Payable - continued

The annual requirements to amortize all debt outstanding as of December 31, 2014 including interest payments are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 75,000	\$ 51,706	\$ 126,706
2016	75,000	49,643	124,643
2017-2021	420,000	207,663	627,663
2022-2026	530,000	110,513	640,513
2027-2028	240,000	10,500	250,500
	<u>\$ 1,340,000</u>	<u>\$ 430,025</u>	<u>\$ 1,770,025</u>

Note I - Retirement Plan

The District participates in a statewide, cost sharing, multiple-employer, public employers' defined benefit pension plan on behalf of District employees. The plan, created under Kentucky Revised Statute (KRS) 78.520, provides for retirement, disability, and death benefits to plan members. Under the provision of KRS 61.565, the plan is administrated by the Board of Trustees of Kentucky Retirement Systems and funded by contributions from participants and employers and by investment earnings.

Plan Descriptions, Contribution Information, and Funding Policies

Kentucky Retirement Systems County Employees' Retirement System Non-Hazardous Employees Pension Plan (CERS)

All regular full-time employees in a non-hazardous position of duty are eligible to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan member under certain circumstances. Cost of living adjustments are provided at the discretion of the State legislature.

Participants have a vested right to retirement benefits at age 65 with at least 4 years service or at any age with at least 27 years of service, if they do not withdraw deposits. A member may receive a reduced standard annuity at age 55 with 5 or more years of service or any age below 55 with 25 or more years of service. Benefits under CERS will vary based on final compensation, years of service, and other factors as fully described in the pain documents.

Non-hazardous duty employees were required to contribute 5% of their annual creditable compensation, which is withheld by the District. The District was required to contribute at a determined rate of 19.55% from January 1, 2014 until June 30, 2014 and 17.67% from July 1, 2014 to December 31, 2014 of participating non-hazardous duty employee's annual creditable compensation. Normal contributions and past service contribution rates are determined in accordance with KRS 61.565(3) on the basis of an annual valuation.

**NORTH NELSON WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Note I - Retirement Plan – continued

Trend Information

Contributions required by state statute for the year ended December 31, 2014, were \$43,634.83 and were 100% contributed. Such contributions included employer contributions of \$33,523.27 and withholdings from employees of \$10,111.56. The District's total payroll for all employees during the year was \$219,738 and \$183,653 of such amount related to employees covered by CERS.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the CER's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparison among CERS and employers. The CERS does not make separate measurements of assets and pension benefit obligation for individual employers.

Kentucky Retirement Systems issues a stand-alone financial report that includes financial statements and required supplementary information including actuarial valuation for Kentucky Retirement Systems. Interested parties may obtain a copy for further plan information from the most recently published CAFR at www.kyret.com.

Note J - Cash Flow Activity

The following information for the year ended December 31, 2014 is presented as supplemental disclosure to the statement of cash flows as required by Statement of Financial Accounting Standards No. 95.

Interest Expense	\$ 51,899
------------------	-----------

Note K - Risk Management

The District is exposed to various forms of losses associated with the risks of fire; personal liability, vehicular accidents; errors and omissions; torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchase certain policies that are retrospectively rated which include worker's compensations insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note L - Litigation

The North Nelson Water District's attorney Damon R. Talley has not advised us of any litigation against the organization.

Note M - Subsequent Events

No subsequent events to report for North Nelson Water District.

Supplementary Information

**NORTH NELSON WATER DISTRICT
SCHEDULE I - OPERATING EXPENSES PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Source of Supply/Pumping	Water Treatment	Transmission/ Distribution	Customer Accounts	Administrative/ General	Total
Personal Services						
Salaries And Wages	\$ -	\$ -	\$ 93,321	\$ 38,554	\$ 51,778	\$ 183,653
Commissioners' Fees	-	-	-	-	7,200	7,200
Employee Benefits	-	-	29,080	12,014	16,134	57,228
Total Personal Services	\$ -	\$ -	\$ 122,401	\$ 50,568	\$ 75,112	\$ 248,081
Maintenance, Operations, And Contractual Services:						
Purchased Water	\$ 614,051	\$ -	\$ -	\$ -	\$ -	\$ 614,051
Purchased Power	18,839	-	-	-	-	18,839
Contract Services - Accounting & Legal	-	-	-	-	16,740	16,740
Contract Services - Other	-	2,525	71,586	-	495	74,606
Transportation Expenses	-	-	8,270	2,130	2,130	12,530
Insurance - General Liability	-	-	5,864	4,462	2,422	12,748
Insurance - Workers' Compensation	-	-	1,332	1,181	515	3,028
Miscellaneous Expense	-	-	2,976	2,638	1,149	6,763
Total Maintenance, Operations, And Contractual Services	\$ 632,890	\$ 2,525	\$ 90,028	\$ 10,411	\$ 23,451	\$ 759,305
Materials And Supplies	\$ -	\$ -	\$ 20,053	\$ 17,547	\$ 25,067	\$ 62,667
Taxes Other Than Income Taxes						
Utility Regulatory Assessment Fee	\$ -	\$ -	\$ -	\$ -	\$ 3,201	\$ 3,201
Payroll Taxes	-	-	7,124	2,992	4,131	14,247
Total Taxes Other Than Income Taxes	\$ -	\$ -	\$ 7,124	\$ 2,992	\$ 7,332	\$ 17,448

See independent auditor's report and accompanying notes to financial statements.

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
FINANCIAL ADVISORS & BUSINESS CONSULTANTS

442 East Stephen Foster Avenue - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

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
North Nelson Water District
Cox's Creek, Kentucky 40013

We have audited the basic financial statements of the business-type activities of North Nelson Water District as of and for the year ended December 31, 2014 which comprise North Nelson Water District's basic financial statements and have issued our report thereon dated February 10, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Nelson Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Nelson Water District's internal control over the financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Nelson Water District internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described in the schedule of findings found on the last page of this report, we identified a certain deficiency in internal controls over financial reporting that we consider to be a minor deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the North Nelson Water District's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the minor deficiency described in the schedule of findings is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Nelson 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Commissioners, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company, CPA's

Bardstown, Kentucky
February 10, 2015

Schedule of Findings and Responses

Due to the small office environment the District has a minor deficiency regarding segregation of duties.

North Nelson Water District's Response- We fully understand that the lack of segregation of duties due to the small office size puts us at a higher risk; but with the work load amount the District creates we do not feel as though it is practical for the District to employ additional personnel to accommodate the segregation of duties because it would impose significant additional expenses upon the District.