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OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013



GILBERT & GILBERT, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

PRINCIPAL OFFICERS

Harry Storm	Chairman
Ben Everly	Vice Chairman
Dewayne Johnson	Secretary
Chuck Price	Treasurer
Doug McKenney	Commissioner
Cletus Greer	Commissioner
Mark Whitehouse	Commissioner
Walter Beasley	General Superintendent

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

MEMBER
AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

Commissioners of the Ohio County Water District
Hartford, KY 42347

We have audited the accompanying statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows of Ohio County Water District as of for the year ended December 31, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 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 of 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 opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 2-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2015 on our consideration of the Ohio County Water 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 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 Ohio County Water District's internal control over financial reporting and compliance.

Gilbert & Gilbert CPA's

Glasgow, KY

July 24, 2015

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Our discussion and analysis of the Ohio County Water District financial performance provides an overview of the District's financial activities for the year ended December 31, 2014 and 2013 and 2012. The information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ending December 31, 2014, total operating and non-operating revenues (including capital contributions) totaled \$3,912,781 and expenses amounted to \$3,936,715 creating a decrease in net position of \$23,934. At year end, net position totaled \$21,987,472 of which \$17,953,479 (net of related debt) was invested in capital assets and \$663,162 was restricted for debt service. This left a net amount of \$3,370,831 of unrestricted assets.

For the year ending December 31, 2013, total operating and non-operating revenues (including capital contributions) totaled \$3,906,838 and expenses amounted to \$3,836,826 creating an increase in net position of \$70,012. At year end, net position totaled \$22,011,406 of which \$17,211,926 (net of related debt) was invested in capital assets and \$1,508,725 was restricted for debt service. This left a net amount of \$3,290,755 of unrestricted assets.

For the year ending December 31, 2012, total operating and non-operating revenues (including capital contributions) totaled \$4,278,278 and expenses amounted to \$3,831,783 creating an increase in net position of \$446,495. At year end, net position totaled \$21,960,542 of which \$16,713,251 (net of related debt) was invested in capital assets and \$2,253,494 was restricted for debt service. This left a net amount of \$2,993,797 of unrestricted assets.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis and the Basic Financial Statements. The Financial Statements include notes, which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements of Ohio County Water District report information of Ohio County Water District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statements of Net Position includes all of Ohio County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Ohio County Water District's creditors (liabilities). It also provides the basis of evaluation of the capital structure of Ohio County Water District and assessing the liquidity and financial flexibility of Ohio County Water District.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure the success of Ohio County Water District's operations over the past year and can be used to determine whether Ohio County Water District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statements of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Financial Analysis of Ohio County Water District

Ohio County Water District
Statement of Net Position-Summary
December 31,

	2014	2013	2012
Assets:			
Total Current Assets	\$ 1,349,844	\$ 1,448,827	\$ 1,481,749
Total Restricted Assets	3,205,484	3,934,780	4,669,511
Net Capital Assets	30,565,020	31,232,295	31,461,173
Other Assets	<u>0</u>	<u>0</u>	<u>19,151</u>
Total Assets	\$ <u>35,120,348</u>	\$ <u>36,615,902</u>	\$ <u>37,631,584</u>
Liabilities:			
Total Current Liabilities	\$ 878,638	\$ 1,957,877	\$ 1,998,423
Total Long-Term Liabilities	<u>12,254,238</u>	<u>12,646,619</u>	<u>13,672,619</u>
Total Liabilities	\$ <u>13,132,876</u>	\$ <u>14,604,496</u>	\$ <u>15,671,042</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 17,953,479	\$ 17,211,926	\$ 16,713,251
Restricted for debt service	663,162	1,508,725	2,253,494
Unrestricted	<u>3,370,831</u>	<u>3,290,755</u>	<u>2,993,797</u>
Total Net Position	\$ <u>21,987,472</u>	\$ <u>22,011,406</u>	\$ <u>21,960,542</u>

The largest portion (82%, 79%, and 77% per year respectively) of the Water District's net position is reflected by investment in capital assets, less any related debt used to acquire those assets still outstanding. The Water District uses these capital assets to provide services to consumers; consequently, these assets are not available for future spending.

Restricted for debt service (3%, 7%, and 11%, per year respectively) represents resources that are subject to external restrictions on how they may be used.

The balance (15%, 14%, and 12% per year respectively) of unrestricted net position may be used to meet the Water District's ongoing obligations to consumers and creditors.

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Ohio County Water District
Statement of Operations-Summary
For the Year Ended December 31,

	2014	2013	2012
Total operating revenues	\$ 3,563,496	\$ 3,566,292	\$ 3,696,725
Total operating expenses	<u>3,453,341</u>	<u>3,261,710</u>	<u>3,258,975</u>
Operating Income	110,155	304,582	437,750
Total non-operating revenue (expenses)	<u>(447,136)</u>	<u>(535,948)</u>	<u>(518,914)</u>
Income before capital contributions	(336,981)	(231,366)	(81,164)
Capital contributed	<u>313,047</u>	<u>301,378</u>	<u>527,659</u>
Change in net position	(23,934)	70,012	446,495
Beginning of year	<u>22,011,406</u>	<u>21,941,394</u>	<u>21,514,047</u>
End of year	\$ <u>21,987,472</u>	\$ <u>22,011,406</u>	\$ <u>21,960,542</u>

For the calendar year 2014, net position decreased by \$23,934 and consisted of operating income of \$110,155, net non-operating expenses of \$447,136 and capital contributions of \$313,047.

For the calendar year 2013, net position increased by \$70,012 and consisted of operating income of \$304,582, net non-operating expenses of \$535,948 and capital contributions of \$301,378.

For the calendar year 2012, net position increased by \$446,495 and consisted of operating income of \$437,750, net non-operating expenses of \$518,914 and capital contributions of \$527,659.

Capital Asset Changes

At December 31, 2014 the Water District had invested \$30,565,020 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$667,275 from the previous year. The net decrease consisted of additions to capital assets of \$419,235 less depreciation expense of \$1,086,510. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues.

At December 31, 2013, the Water District had invested \$31,232,295 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$228,878 from the previous year. The net decrease consisted of additions to capital assets of \$856,164 less net costs of assets sold and abandoned of \$16,288 less depreciation expense of \$1,068,754. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues.

At December 31, 2012 the Water District had invested \$31,461,173 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$311,017 from the previous year. The net decrease consisted of additions to capital assets of \$892,768 less net costs of assets sold and abandoned of \$151,685 and depreciation expense of \$1,052,100. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues.

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Debt Administration

At December 31, 2014, the Water District had \$9,011,000 revenue bonds outstanding and \$3,594,703 of loans payable outstanding. This represents an decrease, of \$186,500 in bonds and a decrease of \$1,220,566 in loans from the prior year balances of \$9,197,500 and \$4,815,269 respectively.

At December 31, 2013, the Water District had \$9,197,500 revenue bonds outstanding and \$4,815,269 of loans payable outstanding. This represents a decrease of \$177,500 and an decrease of \$832,837 from the prior year balances of \$9,375,000 and \$5,648,106 respectively.

At December 31, 2012, the Water District had \$9,375,000 revenue bonds outstanding and \$5,648,106 of loans payable outstanding. This represents a decrease of \$85,000 and an decrease of \$138,116 from the prior year balances of \$9,460,000 and \$5,509,990 respectively.

Other Matters

Ohio County Water District serves approximately 6,000 residential and commercial customers in Breckenridge, Daviess, Grayson , and Ohio Counties, including the Cities of Beaver Dam and Fordsville.

In December 2006, the Water District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant is \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Total payoff of the existing bond issues equalled \$6,398,500. Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the Water District providing \$2,000,000. The Ohio County Fiscal Court paid \$550,000 towards the amount of the project they agreed to cover (\$3,000,000) and is servicing the remainder debt of \$2,450,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bear a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of (20) years.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Ohio County Water District's finances and to demonstrate Ohio County Water District's accountability for the funds it receives. If you have any questions about this report or need additional information, please contact the Ohio County Water District at 124 E. Washington Street, Hartford, KY 42347.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 584,800	\$ 714,587
Accounts Receivable-Customers	279,744	297,557
Accounts Receivable-Other	232,756	161,625
Prepaid Expenses	17,747	18,093
Unbilled Revenue Receivable	231,804	254,063
Interest Receivable	<u>2,993</u>	<u>2,902</u>
Total Current Assets	<u>1,349,844</u>	<u>1,448,827</u>
RESTRICTED ASSETS		
Debt Service Funds		
Cash and Cash Equivalents	497,613	500,378
Construction Fund		
Cash and Cash Equivalent	2,972	0
Depreciation Fund		
Cash and Cash Equivalents	475,193	363,051
Investments	1,877,085	1,863,049
Debt Service Reserve Funds		
Investments	144,184	1,057,180
Replacement Reserve Funds		
Cash and Cash Equivalents	<u>208,437</u>	<u>151,122</u>
Total Restricted Assets	<u>3,205,484</u>	<u>3,934,780</u>
PROPERTY PLANT AND EQUIPMENT AND INTANGIBLES, at cost less		
Accumulated Depreciation	<u>30,565,020</u>	<u>31,232,295</u>
TOTAL ASSETS	\$ <u>35,120,348</u>	\$ <u>36,615,902</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF NET POSITION-CONTINUED
DECEMBER 31, 2014 AND 2013

NET POSITION AND LIABILITIES

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 54,856	\$ 101,244
Construction Payable	5,839	7,601
Accrued Payroll Taxes	8,563	12,908
Sales Tax Payable	1,428	1,497
Utility Tax Payable	14,026	14,665
Accrued Salaries	23,765	26,236
Accrued Interest	187,072	199,955
Current Portion of Long-Term Debt	390,502	1,407,066
Current Portion of Compensated Absence	9,759	7,221
Accrued Retirement	12,410	15,382
Customers' Deposits	<u>170,418</u>	<u>164,102</u>
 Total Current Liabilities	 <u>878,638</u>	 <u>1,957,877</u>
 LONG-TERM LIABILITIES (net of current portion)		
Loan Payable Kentucky Infrastructure Authority	3,399,700	3,594,702
Revenue Bonds Payable Series 91-01 & 91-03	7,910,500	8,011,000
Revenue Bonds Payable Series 2003	905,000	1,000,000
Compensated Absences	<u>39,038</u>	<u>40,917</u>
 Total Long-Term Debt	 <u>12,254,238</u>	 <u>12,646,619</u>
 TOTAL LIABILITIES	 <u>13,132,876</u>	 <u>14,604,496</u>
 NET POSITION		
Invested in capital assets, net of related debt	17,953,479	17,211,926
Restricted for Debt Service	663,162	1,508,725
Unrestricted	<u>3,370,831</u>	<u>3,290,755</u>
 TOTAL NET POSITION	 <u>\$ 21,987,472</u>	 <u>\$ 22,011,406</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Water Sales	\$ 3,409,368	\$ 3,415,618
Miscellaneous Service Revenue	47,251	44,065
Penalties	76,780	71,421
Other Revenues	<u>30,097</u>	<u>35,188</u>
Total Operating Revenue	3,563,496	3,566,292
OPERATING EXPENSES		
Salaries/Wages	759,275	766,610
Payroll Tax Expense	92,932	56,469
Employee Pension/Benefits	273,271	283,765
Utilities	326,351	283,473
Chemicals	105,412	140,174
Materials and Supplies	223,081	144,867
Contractual Services	305,852	271,248
Rental of Building/Real Estate	2,072	824
Rental of Equipment	0	0
Transportation Expense	106,919	104,751
Insurance	81,709	64,192
Regulatory Commission Expense	6,950	6,630
Bad Debts	22,620	22,321
Telephone Expense	14,097	12,029
Miscellaneous	47,643	36,956
Depreciation	<u>1,085,157</u>	<u>1,067,401</u>
Total Operating Expenses	3,453,341	3,261,710
OPERATING INCOME	<u>110,155</u>	<u>304,582</u>
NON OPERATING REVENUES (EXPENSES)		
Interest Income	22,972	23,694
Gain on Sale of Equipment	1,366	4,274
Interest Expens	(470,513)	(545,674)
Non Utility Income	11,900	11,200
Non Utility Expense	(12,861)	(13,154)
Loss on Abandoned Property	<u>0</u>	<u>(16,288)</u>
Total Other Income (Expenses)	<u>(447,136)</u>	<u>(535,948)</u>
INCOME BEFORE CONTRIBUTED CAPITAL	\$ <u>(336,981)</u>	\$ <u>(231,366)</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENT OF REVENUES , EXPENSES, AND CHANGES IN NET POSITION (Continued)
YEARS ENDED DECEMBER 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
INCOME BEFORE CONTRIBUTED CAPITAL(Carried Forward)	\$ (336,981)	\$ (231,366)
CONTRIBUTED CAPITAL		
Grant Income	0	0
Capital Contributions from Customers	27,020	29,700
Capital Contributions from Other Government	286,427	271,178
Capital Contributions from Others	<u>600</u>	<u>500</u>
Total Contributed Capital	<u>313,047</u>	<u>301,378</u>
 CHANGE IN NET POSITION	 (23,934)	 70.012
NET POSITION- JANUARY 1 (Restated for 2013)	<u>22,011,406</u>	<u>21,941,394</u>
NET POSITION- DECEMBER 31	<u>\$ 21,987,472</u>	<u>\$ 22,011,406</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,532,437	\$ 3,605,785
Cash payments to suppliers	(1,284,902)	(1,181,098)
Cash payments to employees	<u>(1,134,607)</u>	<u>(1,085,324)</u>
Net cash provided by operating activities	1,112,928	1,339,363
Cash flows from noncapital financing activities:		
Proceeds from noncapital financing	<u>0</u>	<u>0</u>
Net proceeds from noncapital financing	0	0
Cash flows from capital and related financing activities:		
Proceeds from loan	0	393,779
Proceeds from equipment sales	1,366	4,274
Proceeds from capital contribution	313,078	301,378
Principal payments	(1,407,066)	(1,404,117)
Interest on long term debt, net of amount capitalized	(479,998)	(540,855)
Other interest	(3,398)	(5,402)
Net capital expenditure	<u>(419,234)</u>	<u>(856,164)</u>
Net cash used in capital and related financing activities	(1,995,252)	(2,107,107)
Cash flows from investing activities:		
Sale of Investments	898,960	790,170
Interest income	22,881	28,166
Other non utility income/expense	<u>360</u>	<u>(601)</u>
Net cash flows investing activities	<u>922,201</u>	<u>817,735</u>
Net increase (decrease) in cash and cash equivalents	36,877	49,991
Cash and cash equivalents at beginning of year	<u>1,729,138</u>	<u>1,679,147</u>
Cash and cash equivalents at end of year.	\$ <u><u>1,769,015</u></u>	\$ <u><u>1,729,138</u></u>
Non cash capital and related financial activities:		
Loss on abandoned property	<u>0</u>	<u>16,288</u>
	\$ <u><u>0</u></u>	\$ <u><u>16,288</u></u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENT OF CASH FLOWS-CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash		
 Provided by operating activities:		
Operating Income	\$ 110,155	\$ 304,582
Adjustments to reconcile net income to net cash		
 Provided by operating activities:		
Depreciation	1,085,157	1,067,401
Change in assets and liabilities:		
(Increase) decrease in customers receivable	17,813	(598)
(Increase) decrease in other receivable	(71,131)	27,299
(Increase) decrease in prepaid expenses	346	(16,491)
(Increase) decrease in unbilled revenue receivable	22,259	12,792
Increase (decrease) in accounts payable	(47,096)	52,254
Increase (decrease) in insurance payable	0	(23,801)
Increase (decrease) in construction payable	(1,762)	(109,168)
Increase (decrease) in accrued taxes and retirement	(7,317)	9,792
Increase (decrease) in accrued salaries	(2,471)	6,391
Increase (decrease) in compensated absences	659	5,337
Increase (decrease) in customer deposits	<u>6,316</u>	<u>3,573</u>
Net cash provided (used) by operating activities	\$ <u>1,112,928</u>	\$ <u>1,339,363</u>

The notes to the financial statements are an integral part of this statement.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

(a) The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or prepaid amounts have been utilized.

(b) The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities) at the date of the financial statements and of reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to depreciation expense and accumulated depreciation.

(c) The Ohio County Water District was created April 2, 1962, under KRS Chapter 74. The governing board currently consists of seven (7) commissioners; five (5) commissioners are appointed by the Ohio County Fiscal Court and two (2) commissioners are appointed by the Daviess County Fiscal Court. The District is a special district formed for the purpose of providing water to customers within its service area.

(d) Management has determined that all accounts receivable carried on the balance sheet at December 31, 2014 and 2013 are collectable and therefore no allowance for uncollectible accounts is necessary.

(e) Capital assets are defined as assets with an individual cost of more than \$2,500. Capital assets are reported at cost or the fair market value at the time of contribution to the utility. Major outlays are capitalized as projects are constructed. Interest is capitalized on fixed assets constructed with borrowed funds. The amount of interest to be capitalized is calculated by offsetting interest expense from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Operating supplies are expensed at time of purchase. Unused pipe and related materials at the end of each year to be used in future construction are recorded at cost as a fixed asset. Depreciation is computed on the straight-line method over the following useful lives:

	Years
Organization expense	40
Cost of water contracts	40
Land improvements	10-20
Pumping treatment plant and equipment	5-50
Transmission and distribution system	5-50
Other equipment	5-10

(f) Consistent with rate-making treatment, rate case expense is being amortized over a 3 year period beginning with the year the new rates are implemented.

(g) Water sold but unmetered at the date of the financial statements is estimated based on subsequent billing and included in current assets.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1- SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

(h) For purposes of the statement of cash flows, Ohio County Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents.

(i) The District accrues a liability for vested vacation and personal leave pay.

(j) The District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989. Unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs").

(k) When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as needed.

(l) Operating revenues are revenues generated by providing services to customers and include water sales, services revenue, penalties and other miscellaneous operating revenues. Nonoperating revenues are located in the statement of revenues and expenses after operating income (operating revenues less operating expenses). Nonoperating income includes interest income and contributed capital.

(m) Net position represents the difference between assets and liabilities. Net Position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments. Unrestricted net position is the component of net position that does not meet definition of restricted or invested in capital assets net of related debt.

(n) In March 2012, the Government Accounting Standards Board (GASB) issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No.4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources on the statement of net position. In addition, GASB 65 recognizes certain items currently being reported as assets and liabilities such as debt insurance costs, as current-year outflows and inflows of resources reported on the statement of revenues, expenses, and changes in net position. The requirements of GASB 65 were effective for fiscal year 2014. but were early-implemented as of and for the year ended December 31, 2013.

(o) Management has evaluated subsequent events through July 24, 2015 the date the financial statements were available to be issued.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2- RESTRICTED ASSETS

(a) Debt Service Funds:

The Debt Service Funds at December 31, consisted of the following:	<u>2014</u>	<u>2013</u>
Debt Service Fund KIA	\$ 0	\$ 10,094
Debt Service Fund Revenue Bond 2003	69,946	167,630
Debt Service Fund Rural Development Loan	347,533	234,483
Debt Service Fund KIA	<u>80,134</u>	<u>88,171</u>
	\$ <u>497,613</u>	\$ <u>500,378</u>

The funds are required under current debt instruments. Funds are restricted for paying interest and principle of the respective long-term debt.

The Debt Service Fund KIA was invested in a savings account with an interest rate of .50%. at year end 2013. The investment is stated at cost which approximates market value.

At year end December 31, 2014, the Debt Service Fund Revenue Bonds was invested in savings accounts with an interest rate of .75% . At December 31, 2013, Debt Service Fund Revenue Bonds was invested in savings accounts with an interest rate of .75%. The investments are stated at cost, which approximates market value.

(b) Construction Funds:

The Construction Funds at December 31, consisted of the following:

	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalent:		
Construction Fund Line Extension	\$ <u>2,972</u>	\$ <u>0</u>
	\$ <u>2,972</u>	<u>0</u>

Construction Funds are restricted to paying the costs associated with each respective project.

(c) Depreciation Fund:

The Depreciation Fund was created and continued under previous Revenue Bond Ordinances. Funds are restricted for paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2- RESTRICTED ASSETS (CONTINUED)

and the cost of constructing additions and improvements to the system. The fund shall also be available for transfer to the debt service fund in order to avoid default in connection with any outstanding debt payable or to purchase outstanding debt in advance of maturity. At December 31, 2014, the fund consisted of two certificate of deposit totaling \$1,877,085. The investments are stated at cost, which approximates market value.

	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents	\$ 475,193	\$ 363,051
Investments	<u>1,877,085</u>	<u>1,863,049</u>
	<u>\$ 2,352,278</u>	<u>\$ 2,226,100</u>

The Debt Service Reserve Funds at December 31, consists of the following:

(d) Debt Service Reserve Funds:

	<u>2014</u>	<u>2013</u>
Debt Service Reserve Fund Revenue Bonds Series 2003	\$ \$ 144,184	\$ 143,076
Debt Service Reserve Fund KIA	<u>0</u>	<u>914,104</u>
	<u>\$ 144,184</u>	<u>\$ 1,057,180</u>

Debt Service Reserve Fund Revenue Bonds Series 2003:

The Debt Service Reserve Fund Revenue Bonds Series 2003 was established by a resolution adopted by the Commission of the Water District dated October 28, 2003. The amounts on deposit in the reserve fund shall be withdrawn and used to prevent a default in making payments of principal and interest on the bonds if the amount in the debt service fund is not sufficient to make such payments. In the event of any withdrawal, the District shall restore such deficiencies monthly into the reserve fund 1/36 of the amount required to be accumulated in the reserve funds until the total required debt service reserve shall have been restored. The required reserve balance is \$136,105.19. Any revenues in excess of the required debt service reserve shall be transferred to the debt service fund.

The Debt Service Reserve Fund Series 2003 consists of a two (2)-year certificate of deposit maturing December 16, 2014, with an interest rate of .75%. The investment is stated at cost, which approximates market value.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Debt Service Reserve Fund KIA:

The Debt Service Reserve Fund KIA was established by the Kentucky Infrastructure Authority ("Authority") from the proceeds of the bonds issued to provide financing sources for loans to government agencies. The fund was held by the Authority for additional security in the event of any loan defaults relating to the group of loans (Fund C, series 1993F) payable to the Authority. The funds were used to apply towards the final payments on the loan from the Authority.

(c) Replacement Reserve Fund

Required by the new funding sources, the replacement reserve fund consist of two savings accounts.

	<u>2014</u>	<u>2013</u>
RD Replacement Fund	\$ 151,470	\$ 106,910
KIA Replacement Fund	<u>56,967</u>	<u>44,212</u>
	<u>\$ 208,437</u>	<u>\$ 151,122</u>

NOTE 3- CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2014 follows:

	Balance 12-31-13	Increases	Decreases	Balance 12-31-14
Capital assets, not being depreciated:				
Land and land rights	<u>363,937</u>	<u>97,008</u>	<u>0</u>	<u>460,945</u>
Capital assets being depreciated:				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	8,552,545	1,940	0	8,554,485
Pumping and treatment plant and equipment	7,425,547	0	0	7,425,547
Transmission and distribution system	23,708,644	260,944	0	23,969,588
Other equipment	<u>972,686</u>	<u>94,378</u>	<u>31,776</u>	<u>1,035,288</u>
Total Capital Assets Being Depreciated	<u>40,668,667</u>	<u>454,270</u>	<u>31,776</u>	<u>40,994,153</u>
Total Capital Assets	41,032,604	454,270	31,776	41,455,098
Less: Accumulated Depreciation				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	663,466	235,448	0	898,914
Pumping and treatment plant and equipment	1,130,199	272,346	0	1,402,545
Transmission and distribution system	7,587,406	510,094	0	8,097,500
Other equipment	<u>617,811</u>	<u>68,622</u>	<u>31,776</u>	<u>654,657</u>
Total Accumulated Depreciation	<u>10,008,127</u>	<u>1,086,510</u>	<u>31,776</u>	<u>11,062,861</u>
Construction in process	<u>207,818</u>	<u>225,908</u>	<u>260,943</u>	<u>172,783</u>
Net Capital Assets	<u>31,232,295</u>	<u>(406,332)</u>	<u>260,943</u>	<u>30,565,020</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3- CHANGES IN CAPITAL ASSETS (CONTINUED)

A summary of changes in capital assets for 2013 follows:

	Balance 12-31-12	Increases	Decreases	Balance 12-31-13
Capital assets, not being depreciated:				
Land and land rights	<u>363,937</u>	<u>0</u>	<u>0</u>	<u>363,937</u>
Capital assets being depreciated:				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	8,043,289	509,256	0	8,552,545
Pumping and treatment plant and equipment	7,418,830	6,717	0	7,425,547
Transmission and distribution system	23,323,905	384,739	0	23,708,644
Other equipment	<u>943,183</u>	<u>61,916</u>	<u>32,413</u>	<u>972,686</u>
Total Capital Assets Being Depreciated	<u>39,738,452</u>	<u>962,628</u>	<u>32,413</u>	<u>40,668,667</u>
Total Capital Assets	40,102,389	962,628	32,413	41,032,604
Less: Accumulated Depreciation				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	434,499	228,967	0	663,466
Pumping and treatment plant and equipment	857,070	273,129	0	1,130,199
Transmission and distribution system	7,082,420	504,986	0	7,587,406
Other equipment	<u>572,264</u>	<u>61,672</u>	<u>16,125</u>	<u>617,811</u>
Total Accumulated Depreciation	<u>8,955,498</u>	<u>1,068,754</u>	<u>16,125</u>	<u>10,008,127</u>
Construction in process	<u>314,282</u>	<u>207,818</u>	<u>314,282</u>	<u>207,818</u>
Net Capital Assets	<u>31,461,173</u>	<u>101,692</u>	<u>330,570</u>	<u>31,232,295</u>

Construction in process at December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Materials and Supplies	132,317	201,818
Water District Projects	<u>40,466</u>	<u>6,000</u>
	<u><u>172,783</u></u>	<u><u>207,818</u></u>

Depreciation expense of \$1,086,510 is reported in the statement of revenue and expenses in two separate amounts: as depreciation expense in operating expenses of \$1,085,157 and \$1,353 is included in other income and expense, non utility expenses.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 EMPLOYEE BENEFIT PLAN

Plan Description

Substantially all full-time Ohio County Water District employees are covered by the County Employee Retirement System (CERS), a multiple employer cost sharing defined benefit pension plan providing for retirement, disability, and death benefits to plan members. CERS provides benefits based on an employee's compensation and number of years of service. Benefits are subject to reduction if the employee retires before reaching age 65 or has less than 30 years of service. Vesting begins immediately upon entry into the system and are fully vested after 60 months of service, of which 12 months must be current service. The plan also provides for disability, death and survivor benefits and medical insurance. CERS issues a publicly available financial report that includes historical trend information about progress made in accumulating sufficient assets to pay benefits when due. CERS does not make separate investments of assets and benefit obligations by individual employers. Ohio County Water District contributes less than 1% of the contributions made to CERS by all employers.

Funding Policy

Employees covered under CERS are required to contribute 5.0% of their salary through payroll deductions. Ohio County Water District is required to contribute an actuarially determined rate; the current rate is 17.67%. The contribution requirements of plan members and Ohio County Water District are established and may be amended by the Board of Trustees of the Kentucky Retirement Systems each biennium.

Annual Pension Cost

Covered payroll for the year ended December 31, 2014, 2013, and 2012 was \$680,792, \$720,653, and \$697,286, respectively. The gross payroll for the years equalled \$767,087, \$781,363, and \$735,503, respectively. The contribution requirements for the year ended December 31, 2014 was \$157,948, which consists of \$124,476 from the Ohio County Water District and \$33,472 from the employees.

Ohio County Water District current year annual pension cost was equal to the District's required and actual contribution. Participating employers are required to contribute at an actuarial determined rate. Per Kentucky Revised Statute Section 61.565 (3), normal contribution and past service contribution rates shall be determined by the Commission on the basis of an annual valuation last preceding the July 1 of a new biennium. The Commission may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Commission.

The obligation for pension benefits under CERS is solely the responsibility of the Commonwealth and not the Ohio County Water District.

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 CERS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among CERS and employers. The CERS does not make separate measurements of assets and pension benefit obligation for individual employers.

Additional information and ten-year historical trend information can be obtained from the separately issued Kentucky Retirement System Financial Report. That report may be obtained by writing Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by telephone (502) 564-4646.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5- CONSTRUCTION PAYABLE

Construction Payable are payables related to construction projects. As of December 31, 2014 construction payables equalled \$5,839, and construction payables equalled \$7,601 at December 31, 2013.

NOTE 6- LONG TERM DEBT

The long-term debt at December 31, 2014, consisted of the following:

(a) Loan Payable Kentucky Infrastructure Authority (KIA):

In 2011 the Water District began drawing loan proceeds from KIA for the construction of the new water treatment plant. The amount, not to exceed \$5,000,000, was completed for \$3,742,957. Repayment of the loan commenced after the project was completed and requires semi annual payments on the dates established by the Schedule of Payments. The loan bears an interest rate of 1% and an administrative fee of .25% over a term of 20 years.

(b) Waterworks Revenue Bonds:

Series 2003:

The Water District issued \$1,865,000 of Waterworks Revenue Bonds Series 2003, dated November 1, 2003, to provide construction funds for Series III (2003) Construction Project for improvements to the water distribution system. The bonds are fully registered and insured as to principal and interest. Interest is payable semi-annually on February 1 and August 1 of each year commencing February 1, 2004. Principal is payable annually on August 1.

Series 2003:

Optional Redemption:

The 2003 Series Bonds maturing on and after August 1, 2014, are subject to redemption, in whole or in part in any order of their maturities, at any time by the District prior to their stated maturities, on any date falling on or after August 1, 2013, (less than all Bonds of a single maturity to be selected in such manner as the Registrar may determine) at par plus accrued interest to the date of redemption.

Mandatory Redemption:

The Series 2003 Bonds are subject to mandatory redemption by the District prior to maturity. In the normal order of maturities, by lot within the respective maturities, in such manner as the Registrar may determine, at a redemption price of 100% of principal amount thereof, plus interest accrued on the redemption date on August 1, in the years and in the principal amounts as follows:

Bonds maturing on August 1, 2021, \$120,000; 2022; \$125,000; 2023 \$130,000.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Series 91-01 and 91-03

The Water District issued \$8,200,000 of Waterworks Revenue Bonds to provide construction funds for the new water treatment plant. The total amount of bonds issued are made up of two separate Series of bonds, Series A \$7,000,000 and Series B \$1,200,000. payments are due January 1st of each year for a term of 40 years. Both Bonds bare an interest rate of 4.125%. The Bonds are fully registered and insured as to the principal and interest.

A schedule of the principal due on loans and bonds at December 31, 2014 is as follows:

Dec 31,	KIA	Revenue Bonds			Total
	Loan F08-08	Series 2003	Series 91-01	Series 91-03	
2015	195,002	95,000	86,000	14,500	390,502
2016	196,957	100,000	89,500	15,500	401,957
2017	198,931	100,000	93,000	16,000	407,931
2018	200,925	105,000	97,000	16,500	419,425
2019	202,940	110,000	101,000	17,500	431,440
2020-2024	1,045,627	490,000	570,500	98,000	2,204,127
2025-2029	1,099,100	0	699,000	120,000	1,918,100
2030-2034	455,221	0	855,500	147,000	1,457,721
2035-2039	0	0	1,047,000	180,000	1,227,000
2040-2044	0	0	1,281,500	219,500	1,501,000
2045-2049	0	0	1,568,500	268,500	1,837,000
2050	<u>0</u>	<u>0</u>	<u>350,000</u>	<u>59,500</u>	<u>409,500</u>
	3,594,703	1,000,000	6,838,500	1,172,500	12,605,703
Less Current Portion	<u>(195,002)</u>	<u>(95,000)</u>	<u>(86,000)</u>	<u>(14,500)</u>	<u>(390,502)</u>
Long-Term Portion	<u>3,399,701</u>	<u>905,000</u>	<u>6,752,500</u>	<u>1,158,000</u>	<u>12,215,201</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 6 -LONG-TERM DEBT (CONTINUED)

All long-term (loans and bonds) are secured solely by a pledge of and payable from the gross revenues derived from the operations of the District. Each obligation ranks on a parity basis as to security and source of payment with the other obligations.

Annual Debt Service Requirements:

The annual requirements to amortize the total long-term debt as of December 31, 2014, including interest payments are as follows:

Year Ended <u>Dec 31</u>	KIA Loan <u>F08-08</u>	Revenue	Revenue Bonds		<u>Total</u>
		Bonds Series <u>2003</u>	Series <u>91-01</u>	Series <u>91-03</u>	
2015	230,463	138,443	368,088	62,866	799,860
2016	230,463	139,737	368,041	63,268	801,509
2017	230,463	135,738	367,849	63,128	797,178
2018	230,463	136,637	368,013	62,968	798,081
2019	230,463	137,227	368,011	63,288	798,989
2020-2024	1,152,313	547,838	1,839,556	315,552	3,855,259
2025-2029	1,152,312	0	1,840,264	315,628	3,308,204
2030-2034	460,925	0	1,840,158	315,753	2,616,836
2035-2039	0	0	1,840,011	315,816	2,155,827
2040-2044	0	0	1,840,066	315,035	2,155,101
2045-2049	0	0	1,839,987	314,886	2,154,873
2050	<u>0</u>	<u>0</u>	<u>364,437</u>	<u>61,954</u>	<u>426,391</u>
	<u>3,917,865</u>	<u>1,235,620</u>	<u>13,244,481</u>	<u>2,270,142</u>	<u>20,668,108</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 6- LONG-TERM DEBT (CONTINUED)

(c) Compensated Absences totaled \$48,797. Of that amount 20% or \$9,759 has been estimated as a current liability and the balance of \$39,038 is reflected as a long term liability.

NOTE 7- CASH AND INVESTMENTS

Cash and Investments:

Under Kentucky Revised Statute 66.480 the Ohio County Water District is allowed to invest in obligations of the U.S. Treasury and U.S agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national banks.

The Ohio County Water District deposits and investments at December 31, 2014 were covered by federal depository insurance or by collateral held by the custodial banks. The book balance of the Ohio County Water District's deposits was \$1,768,115 and the bank balance were \$1,735,399. This does not include petty cash of \$900.

NOTE 8- CUSTODIAL CREDIT RISKS-DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the Ohio County Water District's deposits may not be returned to it. The Ohio County Water District does not have a deposit policy for custodial credit risk. As of December 31, 2014, \$1,235,399 of the Ohio County Water District's bank balance of \$1,735,399 was exposed to custodial credit risk, detailed as follows:

Uninsured, however, collateral is held by pledging bank	\$1,235,399
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NOTE 9 - RISK MANAGEMENT

The Ohio County Water District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the Ohio County Water District also carries commercial insurance for all other risks of loss such as worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 10- PRIOR PERIOD ADJUSTMENT-UNAMORTIZED DEBT DISCOUNT AND EXPENSE

In prior years, these costs were being amortized as non-operating expenses over the life of the debt issue using the straight line method. Amortization expense was \$1,809 for the year ended December 31, 2013. The District recorded a prior period adjustment of \$19,148 effective January 1, 2013 to write off bond issue costs which were previously capitalized. Governmental Accounting Standards Board Statement No. 65 mandated this accounting change. This adjustment is reported as an adjustment to the beginning of year net position. The impact of this retroactive accounting change on previously reported amounts for the year ended December 31, 2013 is as follows:

	January 1, 2013 <u>Net Position</u>	2013 Change in <u>Net Position</u>	December 31, 2013 <u>Net Position</u>
Amounts as previously reported	\$ 21,960,542	\$ 68,203	\$ 22,028,745
Prior-period adjustment	<u>(19,148)</u>	<u>1,809</u>	<u>(17,339)</u>
Amounts as restated	\$ <u>21,941,394</u>	\$ <u>70,012</u>	\$ <u>22,011,406</u>

NOTE 11- MAJOR CONSTRUCTION PROJECTS

In June, 1995, a hydraulic analysis of the District was completed pursuant to an order issued by the Public Service Commission (PSC). Numerous deficiencies throughout the system were identified. As a result, the District's Commission approved a long-range plan to construct needed improvements to the water system. The total cost of the proposed construction is approximately \$10,000,000 to be done in three series.

Series I (1998) Construction Project:

On January 6, 1998, the District submitted an application to the PSC for approval of the Series I Construction Project and the approval to issue revenue bonds in the amount of \$4,000,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. On August 19, 1998, the PSC approved the application. The Series I Construction Project was substantially completed in 1999.

The Series I Construction Project consisted of approximately 44 miles of distribution mains (approximately 14 miles in unserved areas of the District), two 500,000-gallon storage tanks, tie-in to the Perdue Farms, Inc. water treatment plant, pumping and water treatment equipment, an office at Perdue Farms, Inc., and radio telemetry equipment for monitoring and controlling the system. Pursuant to an agreement dated August 13, 1998, the Ohio County Fiscal Court assigned its contract rights to 1,000,000 gallons of water per day from Perdue Farms, Inc. to the Ohio County Water District

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 11- MAJOR CONSTRUCTION PROJECTS-Continued

Series II (2000) Construction Project:

On April 12, 2000, the District submitted an application to the PSC for approval of the Series II Construction Project and the approval to issue revenue bonds in the amount of \$4,035,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. The project was approved by the PSC on July 14, 2000. The construction project was substantially completed in 2002.

The Series II Construction Project consists of approximately 25 miles of distribution mains, an additional 500,000-gallon storage tank, and radio telemetry to the new tank. The distribution mains will extend mains into unserved areas and is designed to reinforce the existing system and eliminate deficiencies.

Series III (2003) Construction Project:

On April 7, 2003, the District submitted an application to the PSC for approval of the Series III Construction Project and the approval to issue revenue bonds in the amount of \$1,890,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. The project was approved by the PSC on May 15, 2003.

The series III Construction Project consists of approximately 34 miles of water mains in Ohio and Daviess Counties that will provide service to approximately 65 new customers and enhance the quality and reliability of service to approximately 248 customers. The project was substantially completed in 2004.

Fordsville Water Main:

On January 27, 2003, the Ohio County Water District signed a Contract for Water Service with the City of Fordsville, a municipal corporation of the Sixth Class, whereby the City agrees to purchase from the Water District, upon connection of the Water District water main line to the Fordsville Water System, the City's total water requirements to meet the demands of all of the City's water customers, and the Water District agrees to furnish and sell to Fordsville treated water necessary to satisfy the City's needs at a wholesale rate.

In order to supply the City of Fordsville, a water main, approximately 8.5 miles, was constructed to connect the City to the Water District's existing distribution system. The construction completed in 2004 was financed with a \$500,000 Community Development Block Grant to the City of Fordville for the benefit of the Ohio County Water District, a \$241,500 Coal Severance Grant and approximately \$58,500 provided by the Water District.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 11- MAJOR CONSTRUCTION PROJECTS-CONTINUED

Purchase of Rockport Water System:

On May 1, 2003, the Water District entered into a contract with the City of Rockport to purchase the City's water system assets and customers, excluding, the City's existing water plant and intake structure. The System purchased consists of approximately 14 miles of water mains, a 138,000-gallon standpipe, and approximately 250 customers. In consideration for the purchase of the system, the Water District assumed the liability for full payment of the outstanding indebtedness of the City to Kentucky Municipal Corporation and the Green River Area Development District. The Water District paid the loans in 2004 totaling \$345,825.00. Additional costs related to the project, including costs to connect the Water District system to the Rockport system, were approximately \$190,000. A Coal Severance Grant of \$232,260 is being used to finance the project, with the Water District providing the remaining funds. The Water District began supplying the customers on May 14, 2004.

New Water Treatment Plant:

In December 2006, the Water District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant is \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Total payoff of the existing bond issues equalled \$6,398,500. Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the Water District providing \$2,000,000. The Ohio County Fiscal Court has paid \$550,000 towards the amount of the project they agreed to cover (\$3,000,000) and is servicing the remainder debt of \$2,450,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bear a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of (20) years.

Breckenridge County Project:

In December 2006, the water district accepted assignment of a \$496,000 grant from Breckenridge county Fiscal Court, the grantee accumulated cost of the the project as of December 31, 2006 equalled \$58,790.

New Administrative Building:

In March 2007, the District purchased the Flener Building for \$148,000. This building has been renovated to become the administration office.



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

To the Commissioners
Ohio County Water District

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ohio County Water District as of and for the year ended December 31, 2014 and the related notes to the financial statements, which collectively comprise the Ohio County Water District's basic financial statements, and have issued our report thereon dated July 24, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ohio County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, and is intended solely for the use of management and members of the board.

Gilbert & Gilbert CPA's



Glasgow, KY
July 24, 2015