

PENDLETON COUNTY WATER DISTRICT

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Deaf, Hard-of-Hearing or Speech Impaired, call 711

May 15th, 2015

Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DEPT
10735
PUBLIC SERVICE
COMMISSION

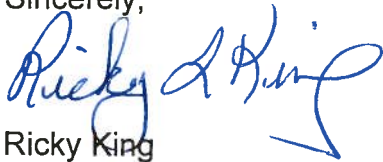
RE: 2014 Audit Report

To Whom It May Concern:

Please find enclosed a copy of our 2014 Audit Report.

If you have any questions, please feel free to contact me.

Sincerely,



Ricky King
Manager

RK/jrt

RECEIVED

MAY 26 2015

PUBLIC SERVICE
COMMISSION



SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2014 and 2013.

**Table 1
Net Position**

	<u>2014</u>	(Restated) <u>2013</u>
Current Assets	\$ 382,652	\$ 406,931
Restricted Assets	1,423,401	1,368,434
Noncurrent Assets	<u>8,736,388</u>	<u>8,853,694</u>
Total Assets	<u>10,542,441</u>	<u>10,629,059</u>
Current Liabilities	97,680	158,582
Liabilities Payable from Restricted Assets	122,634	119,345
Long Term Liabilities	<u>1,607,782</u>	<u>1,675,035</u>
Total Liabilities	<u>1,828,096</u>	<u>1,952,962</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	7,063,606	7,069,860
Restricted	234,010	229,092
Unrestricted	<u>1,416,729</u>	<u>1,377,145</u>
Total Net Position	<u>\$ 8,714,345</u>	<u>\$ 8,676,097</u>

The District's net position for 2014 increased 0.4% or \$38,248 as compared to a 2.4% or \$154,547 increase in the previous year. Net position did not increase as much in 2014 as in 2013 because the amount of contributed capital declined. The sharp decline was due primarily to the donation of \$99,288 from a developer subdivision that was not repeated during 2014.

The largest portion of the District's net position (81%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position (2.7%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

SUMMARY OF CHANGES IN NET POSITION

Revenues

Water revenues increased 2.3% from 2013 to 2014. The increase was a result of a dryer year during 2014 than we had in 2013.

Water Costs

Water costs increased \$20,876 or 5.35% from 2013 to 2014. Water consumption increased as a result of increased water sales coupled with a rate increase for water purchased from the

Northern Kentucky Water Service District. The rate increase was not passed through to the District's customers causing water costs to increase at a higher rate than water sales.

Operation and Maintenance Expense

Operation and maintenance expense increased 4.3% from 2013 to 2014. This increase was primarily due to an increase in system maintenance expenses. During 2014 the District replaced a large number of meters that could no longer be repaired.

Capital Contributions

Capital contributions decreased \$160,184 from 2013 to 2014. The obligation to refund tap fees for the Pendleton Acres development expired in 2013 and the remaining balance of \$99,288 was recognized as income. Also the District received several grants during 2013 that were not repeated during 2014.

Prior Period Adjustment

During 2014 the District realized that they had made an error during 2010. At that time they had recorded \$46,799 of contributed capital on the U.S. 27 line replacement project that should have been recorded as a payable by the District for the cost of upsizing the line. A prior period adjustment was recorded to make the correction.

The following schedule compares the revenues and expenses for the current year and the previous year.

**Table 2
Changes in Net Position**

	<u>2014</u>	(Restated) <u>2013</u>
Operating Revenues:		
Water Sales	\$1,328,857	\$1,293,773
Forfeited Discounts	24,173	24,140
Miscellaneous Services Revenues	<u>17,744</u>	<u>22,182</u>
Total Operating Revenues	<u>1,370,774</u>	<u>1,340,095</u>
Operating Expenses:		
Water Purchased	411,391	390,515
Operation and Maintenance Expense	666,515	639,203
Depreciation	<u>224,593</u>	<u>221,788</u>
Total Operating Expenses	<u>1,302,499</u>	<u>1,251,506</u>
Net Operating Profit/(Loss)	<u>68,275</u>	<u>88,589</u>
Non-Operating Income(Expenses)		
Investment Income	7,299	6,973
Loss on Disposition of Assets	2,358	218
Interest on Long-Term Debt	(75,980)	(80,443)
Debt Issue Costs	-	(9,908)
Amortization of Bond Premium	<u>2,253</u>	<u>1,690</u>
Net Non-Operating Expenses	<u>(64,070)</u>	<u>(81,470)</u>
Income/(Loss) Before Capital Contributions	4,205	7,119
Capital Contributions	<u>34,043</u>	<u>194,227</u>
Change in Net Position	38,248	201,346
Net Position – January 1	8,676,097	8,521,550
Prior Period Adjustment	<u>-</u>	<u>(46,799)</u>
Net Position – December 31	<u>\$8,714,345</u>	<u>\$8,676,097</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2014, the District had \$8,736,388 invested in capital assets including land, buildings, water systems, equipment, and vehicles, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$117,306. During 2014 depreciation expense exceeded the cost of new assets put into service resulting in a decrease in the amount invested in capital assets during 2014.

Table 3 Summarizes the District's capital assets at the end of 2014 as compared to 2013.

Table 3
Capital Assets at Year End

	<u>2014</u>	<u>2013</u>
Land	\$ 63,176	\$ 63,176
Transmission Lines & Equipment	12,325,540	12,262,518
Furniture & Fixtures	57,646	57,752
Machinery & Equipment	324,674	318,435
Buildings & Improvements	<u>326,312</u>	<u>326,312</u>
Subtotal	13,097,348	13,028,193
Accumulated Depreciation	<u>(4,360,960)</u>	<u>(4,174,499)</u>
Total Capital Assets	<u>\$ 8,736,388</u>	<u>\$ 8,853,694</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2014 compared to 2013.

Table 4
Outstanding Debt at Year End

	<u>2014</u>	<u>2013</u>
Bond Payable Obligations	\$ 1,626,500	\$1,681,500
Capitalized Lease	<u>26,000</u>	<u>33,000</u>
Total	<u>\$ 1,652,500</u>	<u>\$1,714,500</u>

At year-end, the District had \$1,652,500 in outstanding notes and bonds compared to \$1,714,500 last year. This is a decrease of \$62,000 or 3.6%. The decrease is due to scheduled debt repayment by the District.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2015 calls for operating revenues to remain relatively unchanged. Operating expenses are expected to decrease by 8.8%. The District expects a decrease in employee salaries and benefits due to a decrease in the number of employees for the year. Both the general manager and the office manager retired during 2014 and the District hired additional personnel early in 2014 for training purposes so that the transition in management would be smooth. Consequently, the number of employees as well as the amount of their salaries is expected to decline in 2015. The District also expects interest paid on long term debt to decrease approximately \$11,000 during 2015. On February 19, 2015, the District refinanced two outstanding bond issues bearing interest at 5.125% and 4.5% with bond debt bearing interest at 2.25% to 3.625%.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 331 Highway 330 West, Falmouth, Kentucky 41040.

Rick King, General Manager
Pendleton County Water District

PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2014 and 2013

ASSETS	2014	Restated 2013
Current Assets		
Cash and cash equivalents	\$ 176,391	\$ 191,644
Accounts receivable	150,211	150,525
Inventories	33,276	42,788
Prepays	22,480	21,667
Accrued interest income	294	307
Total Current Assets	382,652	406,931
Restricted Assets		
Improvement, repair, and replacement	1,117,041	1,070,806
Depreciation reserve	204,591	203,164
Bond sinking fund	63,829	57,284
Customer deposits	37,940	37,180
Total Restricted Assets	1,423,401	1,368,434
Capital Assets		
Land, building, transmission system, equipment, and vehicles	13,097,348	13,028,193
Less: accumulated depreciation	(4,360,960)	(4,174,499)
Total Capital Assets, net of depreciation	8,736,388	8,853,694
TOTAL ASSETS	10,542,441	10,629,059
LIABILITIES		
Current Liabilities		
Accounts payable	59,622	105,779
Accrued and withheld liabilities	38,058	52,803
Total Current Liabilities	97,680	158,582
Current Liabilities Payable From Restricted Assets		
Revenue bonds - current portion	57,000	55,000
Lease obligation - current portion	8,000	7,000
Customer deposits	35,781	35,021
Accrued interest payable	21,853	22,324
Total Current Liabilities Payable From Restricted Assets	122,634	119,345
Long-Term Liabilities		
Bonds	1,569,500	1,626,500
Capital lease payable	18,000	26,000
Unamortized premium on debt	20,282	22,535
Total Long-Term Liabilities	1,607,782	1,675,035
TOTAL LIABILITIES	1,828,096	1,952,962
NET POSITION		
Invested in capital assets, net of related debt	7,063,606	7,069,860
Restricted	234,010	229,092
Unrestricted	1,416,729	1,377,145
TOTAL NET POSITION	\$ 8,714,345	\$ 8,676,097

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

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
OPERATING REVENUES		
Water revenue	\$ 1,353,030	\$ 1,317,913
Other service revenues	17,744	22,182
TOTAL OPERATING REVENUES	<u>1,370,774</u>	<u>1,340,095</u>
OPERATING EXPENSES		
Water purchased	411,391	390,515
Operations, maintenance, and administrative expenses	666,515	639,203
Depreciation	224,593	221,788
TOTAL OPERATING EXPENSES	<u>1,302,499</u>	<u>1,251,506</u>
OPERATING PROFIT	<u>68,275</u>	<u>88,589</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	7,299	6,973
Gain on disposal of assets	2,358	218
Interest on long-term obligations	(75,980)	(80,443)
Debt issuance cost	-	(9,908)
Amortization of bond premium	2,253	1,690
NET NON-OPERATING EXPENSES	<u>(64,070)</u>	<u>(81,470)</u>
NET INCOME	4,205	7,119
CAPITAL CONTRIBUTIONS	<u>34,043</u>	<u>194,227</u>
CHANGE IN NET POSITION	38,248	201,346
NET POSITION, JANUARY 1	8,676,097	8,521,550
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(46,799)</u>
NET POSITION, DECEMBER 31	<u>\$ 8,714,345</u>	<u>\$ 8,676,097</u>

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

PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,371,088	\$ 1,328,150
Paid to suppliers for goods and services	(627,889)	(675,608)
Paid to or on behalf of employees for services	(455,421)	(326,927)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>287,778</u>	<u>325,615</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(154,282)	(131,616)
Proceeds from sale of fixed assets	2,508	710
Interest received on investments	7,312	7,032
NET CASH USED BY INVESTING ACTIVITIES	<u>(144,462)</u>	<u>(123,874)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long term debt	(62,000)	(56,500)
Interest paid on long term debt	(76,404)	(83,547)
Contributed capital received	24,073	28,323
Grant proceeds	9,969	66,616
Increase in restricted cash	(54,967)	(127,484)
Increase in customer deposits	760	676
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(158,569)</u>	<u>(171,916)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(15,253)	29,825
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>191,644</u>	<u>161,819</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 176,391</u>	<u>\$ 191,644</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 68,275	\$ 88,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	224,593	221,788
Change in operating assets and liabilities		
Decrease (Increase) in receivables	1,381	(11,945)
Decrease (Increase) in inventories	9,512	(1,277)
Decrease (Increase) in prepaid assets	(1,880)	(2,766)
Increase (Decrease) in accounts payable	642	(854)
Increase (Decrease) in other accrued liabilities	(14,745)	32,080
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 287,778</u>	<u>\$ 325,615</u>
SUPPLEMENTAL INFORMATION		
Interest expensed	<u>\$ (75,980)</u>	<u>\$ (80,443)</u>

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

PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Pendleton County Water District (District) is a water utility, which provides service to residential and commercial customers in Pendleton County, Kentucky. The District was created by the Pendleton County Fiscal Court under the provisions of chapter 74 of the Kentucky Revised Statutes ("KRS") in 1958. The District's current service area includes parts of Pendleton, Campbell, and Grant Counties.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Basis of Accounting

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District has adopted GASB Statements 66 through 70, and related interpretations issued through December 31, 2014.

Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees – This statement is not currently applicable to Pendleton County Water District.

Statement No. 69 – Government Combinations and Disposals of Government Operations – This statement is not currently applicable to Pendleton County Water District.

Statement No. 68 – Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27 – Requires Pendleton County Water District to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on Pendleton County Water District's Balance Sheet. This statement will be in effect for fiscal periods beginning after June 15, 2014.

Statement No. 67 – Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25 – This statement is not currently applicable to Pendleton County Water District.

Statement No. 66 – Technical Corrections – 2012; an amendment of GASB Statements no. 10 and 62 – This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 and No. 62.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013**

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

Cash Equivalents

For purposes of the statements of net position and statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government's website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year end.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Distribution System, Building, and Equipment

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of the Statements of Revenues, Expenses, and Changes in Net Position.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress". When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

During 2014 and 2013 these contributions consisted of the following:

Source	2014	2013
Tap in fees and construction costs paid by new customers	\$ 24,073	\$ 127,611
Construction funding from Pendleton County Fiscal Court	-	27,645
Construction funding from State of Kentucky	9,969	-
Airport Board Grant	-	38,971
Total	\$ 34,043	\$ 194,227

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the statement of net position as “Cash and Cash Equivalents” and “Restricted Assets”. At December 31, 2014 and 2013, the bank balances were \$176,391 and \$191,644, respectively, which were the same as the carrying amount. The District has amounts on deposit with three banks in excess of FDIC insured amounts. The banks have pledged collateral to cover such excess amounts. Funds in excess of current expenses or obligations of the District are invested in certificates of deposit issued by, or other interest bearing accounts of, banks that are insured by the Federal Deposit Insurance Corporation.

Effective January 1, 1998, investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value.

The District’s investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2014.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

The categories are described as follows:

Category 1 - Insured and registered, with securities held by the entity or its agent in the entity's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name;

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value/ Carrying Cost</u>	<u>Cost</u>
Deposits	\$ 644,843	\$ -	\$ -	\$ 644,843	\$ 644,843
Investments	927,345	-	27,604	954,949	954,949
Total	<u>\$ 1,572,188</u>	<u>\$ -</u>	<u>\$ 27,604</u>	<u>\$ 1,599,792</u>	<u>\$ 1,599,792</u>

In accordance with GASB 40, the District has \$27,604 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa. The market risk on these investments is negligible.

NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets, net of related liabilities, not included in the above categories.

Included in the restricted portion of net position at December 31,

	<u>2014</u>	<u>2013</u>
Depreciation Reserve Fund	\$ 179,760	\$ 175,320
Bond Sinking Fund	54,250	53,772
Total Restricted Net Position	<u>\$ 234,010</u>	<u>\$ 229,092</u>

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment, including infrastructure assets, are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective

**PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013**

accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

The property, plant and equipment accounts are summarized as follows:

Asset Type	Balance at December 31, 2013	Additions	Retirements	Balance at December 31, 2014
Land	\$ 63,176	\$ -	\$ -	\$ 63,176
Buildings and improvements	326,312	-	-	326,312
Distribution reservoirs and standpipes	786,103	-	-	786,103
Furniture and fixtures	57,752	1,296	(1,402)	57,646
Hydrants	177,716	2,861	-	180,577
Meter system and installation	569,488	-	-	569,488
Other plant and misc. equipment	114,872	-	(600)	114,272
Pumping equipment	447,024	-	-	447,024
Services	710,102	20,458	-	730,560
Tools and equipment	28,097	4,673	(6,927)	25,843
Transmission mains	9,572,085	39,702	-	9,611,787
Transportation equipment	175,466	38,342	(29,248)	184,560
Subtotal	13,028,193	107,332	(38,177)	13,097,348
Accumulated depreciation	(4,174,499)	(224,593)	38,132	(4,360,960)
Capital Assets, net	<u>\$ 8,853,694</u>	<u>\$ (117,261)</u>	<u>\$ (45)</u>	<u>\$ 8,736,388</u>

NOTE 5 – BONDED INDEBTEDNESS

Water Works System Revenue Bonds, U.S. Department of Agriculture 1977

On May 26, 1978, the District sold \$263,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. All bonds mature on December 1st of each year beginning in 1980, ending in 2017. Interest is payable on June 1st and December 1st and principal is due in annual installments on December 1st through 2017.

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	5.00%	\$ 13,000	\$ 2,100	\$ 15,100
2016	5.00%	14,000	1,450	15,450
2017	5.00%	15,000	750	15,750
Totals		<u>\$ 42,000</u>	<u>\$ 4,300</u>	<u>\$ 46,300</u>

**PENDLETON COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2014 and 2013**

Water Works System Revenue Bonds, U.S. Department of Agriculture 1997

On April 2, 1998, the District sold \$747,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. All bonds mature on December 1st of each year beginning in 2000 and ending in 2037. Interest is payable on June 1st and December 1st of each year and principal is due in annual installments on December 1st through 2037.

The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2015	5.125%	\$ 12,000	\$ 32,826	\$ 44,826
2016	5.125%	12,500	32,211	44,711
2017	5.125%	13,500	31,570	45,070
2018	5.125%	14,500	30,878	45,378
2019	5.125%	15,500	30,135	45,635
2020-2024	5.125%	96,000	137,556	233,556
2025-2029	5.125%	135,500	109,188	244,688
2030-2034	5.125%	190,500	69,188	259,688
2035-2037	5.125%	150,500	15,759	166,259
Totals		<u>\$ 640,500</u>	<u>\$ 489,311</u>	<u>\$ 1,129,811</u>

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2001A

On June 27, 2001, the District participated in the Kentucky Rural Water Finance Corporation's first Flexible Term Finance Program Remarketing wherein the proceeds of the revenue bonds issued were used to provide refunding and new money for twelve water systems throughout Kentucky. The District's share of the bond proceeds was \$374,000. The water systems represent collateral on the bonds. All bonds matured on January 1st of each year beginning in 2003 and ending in 2024. Interest was payable on January 1st and July 1st of each year and principal was due in annual installments on January 1st through 2024. These bonds were refunded with the new 2013 bond issuance, noted below.

On March 27, 2013, The District entered into a loan agreement with the Kentucky Rural Water Finance Corporation for a promissory note in the amount of \$215,000. Concurrent with this loan agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2013C which refunded the District's Series 2001A bond. The water systems represent collateral on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on January 1 beginning in 2014 and ending January 1, 2024. Interest is payable January 1 and July 1 of each year. These bonds were issued at a premium of \$24,225 which is being amortized over the life of the bonds. As of December 31, 2014, \$3,944 of the premium was amortized. The District achieves substantial interest cost savings under this program.

**PENDLETON COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2014 and 2013**

The debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	3.300%	\$ 20,000	\$ 7,805	\$ 27,805
2016	3.300%	20,000	7,145	27,145
2017	4.300%	20,000	6,385	26,385
2018	4.300%	20,000	5,525	25,525
2019	4.300%	20,000	4,665	24,665
2020-2024	4.3%-4.8%	95,000	9,522	104,522
Totals		<u>\$ 195,000</u>	<u>\$ 41,047</u>	<u>\$ 236,047</u>

Water Works System Revenue Bonds, U.S. Department of Agriculture 2004

On January 29, 2005, the District sold \$596,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. All bonds mature on January 1st of each year beginning in 2007, with debt service requirements beginning in 2006, and ending in 2044. Interest is payable on January 1st and July 1st of each year and principal is due in annual installments on January 1st through 2044. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	4.50%	\$ 9,000	\$ 24,210	\$ 33,210
2016	4.50%	9,000	23,805	32,805
2017	4.50%	10,000	23,400	33,400
2018	4.50%	10,000	22,950	32,950
2019	4.50%	11,000	22,500	33,500
2020-2024	4.50%	61,000	104,760	165,760
2025-2029	4.50%	75,000	89,820	164,820
2030-2034	4.50%	95,000	71,325	166,325
2035-2039	4.50%	116,000	48,150	164,150
2040-2044	4.50%	142,000	19,620	161,620
Totals		<u>\$ 538,000</u>	<u>\$ 450,540</u>	<u>\$ 988,540</u>

Water Works System Revenue Bonds, U.S. Department of Agriculture 2010

On July 30, 2010, the District sold \$220,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. All bonds mature on January 1st of each year beginning in 2012, with debt service requirements beginning in 2010, and ending in 2049. Interest and principal are due in annual installments on January 1st through 2049.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	3.25%	\$ 3,000	\$ 6,809	\$ 9,809
2016	3.25%	3,500	6,703	10,203
2017	3.25%	3,500	6,589	10,089
2018	3.25%	3,500	6,476	9,976
2019	3.25%	3,500	6,362	9,862
2020-2024	3.25%	20,500	29,892	50,392
2025-2029	3.25%	24,000	26,292	50,292
2030-2034	3.25%	28,500	22,027	50,527
2035-2039	3.25%	34,500	16,940	51,440
2040-2044	3.25%	40,500	10,847	51,347
2045-2049	3.25%	46,000	3,689	49,689
Totals		<u>\$ 211,000</u>	<u>\$ 142,626</u>	<u>\$ 353,626</u>

NOTE 6 – CAPITAL LEASE

In 1997, the District signed a capital sublease agreement for its office and storage facilities. The leased property of \$137,718 is included in buildings and improvements on the fixed asset summary in Note 4 and represents collateral on the lease. Amortization of the lease is included in depreciation expense. Accumulated amortization amounted to \$60,826 and \$57,383 at December 31, 2014 and 2013, respectively.

Future minimum lease payments are as follows:

Year	Rent Amount	Interest Amount	Total Lease Payment
2015	\$ 8,000	\$ 1,190	\$ 9,190
2016	8,000	680	8,680
2017	10,000	53	10,053
Totals	<u>\$ 26,000</u>	<u>\$ 1,923</u>	<u>\$ 27,923</u>

NOTE 7 – DEVELOPER REFUNDS

During 2003, a developer installed waterlines within a subdivision that he owns. The District refunded \$887 to this developer (the actual cost of 50 feet of waterline) for each customer that bought a lot and connected to the waterline within ten years as of December 1, 2004. The total refund could have been \$115,245. As of December 31, 2012, eighteen customers had tapped into this line, leaving a balance of \$99,288. The refund period expired in December 2013; the entire remaining balance of \$99,288 was recognized as contributed capital at December 31, 2013.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness are as follows:

Debt Instrument	Balance at December 31, 2013	Additions	Retirements	Balance at December 31, 2014
Revenue bonds of 1977	\$ 55,000	\$ -	\$ (13,000)	\$ 42,000
Revenue bonds of 1997	651,500	-	(11,000)	640,500
Revenue bonds of 2004	546,000	-	(8,000)	538,000
Revenue bonds of 2010	214,000	-	(3,000)	211,000
Series 2013C bonds	215,000	-	(20,000)	195,000
Capitalized lease	33,000	-	(7,000)	26,000
Subtotal	1,714,500	\$ -	\$ (62,000)	1,652,500
Less: current portion of long-term debt	(62,000)			(65,000)
Total Long-Term Indebtedness	<u>\$ 1,652,500</u>			<u>\$ 1,587,500</u>

NOTE 9 – OPERATING LEASE

The District entered into an operating lease for a new copier, beginning May 2013 and continuing through April 2018. Payments under this lease were \$2,217 in 2014. Future minimum lease payments are as follows:

Year	Lease Payments
2015	2,217
2016	\$ 2,217
2017	2,217
2018	554
Totals	<u>\$ 7,205</u>

NOTE 10 – EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System (CERS) of Kentucky. It is a cost sharing multiple-employer defined benefit pension plan created by and operated under Kentucky law. CERS covers substantially all regular full-time employees of each county and school board, and any additional local agencies electing to participate in the system. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the State Legislature. For the years ended December 31, 2014 and 2013, plan members were required to contribute 5% of their annual creditable compensation. Members hired on or after September 1, 2008 are required to contribute 6%. The additional 1% is considered a health insurance contribution. Employer contribution rates are actuarially determined. Such contribution rates are determined by the Board of Trustees of the Kentucky Retirement System. They may amend contribution rates as of the first day of July, if it is determined necessary to satisfy requirements determined in

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

accordance with actuarial basis adopted by the Board. From January until July 2014 the employer contribution rates were 18.89%. From July until December 2014, the employer rates were 17.67%. From January until July 2013 the employer contribution rates were 19.55%. From July until December 2013, the employer rates were 18.89%.

The District has made 100% of all required contributions for each of the years ended December 31, 2014, 2013, 2012, 2011, and 2010. Information about the contributions made by the District and the employees, as well as gross payroll and covered payroll follows:

	2014	2013	2012	2011	2010
Gross Payroll - All Employees	\$ 352,998	\$ 336,077	\$ 328,445	\$ 323,777	\$ 314,299
Gross Payroll - Covered Employees	317,238	312,977	304,445	300,177	291,099
Employee Contribution	15,862	15,649	15,522	15,242	14,555
Employer Contribution (expense)	58,056	60,129	58,641	53,817	48,244

NOTE 11 – ECONOMIC DEPENDENCY/CREDIT RISK

Pendleton County Water District is a government agency operating with one office in Falmouth, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Pendleton, Campbell, and Grant Counties in Kentucky.

NOTE 12 – CONCENTRATIONS

The District has agreements to purchase water from the City of Falmouth, Kentucky and the Northern Kentucky Water District through the year 2047. In June 2001, the District signed an agreement to purchase water on an "as needed" basis from the City of Williamstown, Kentucky. This contract is in force until June 2021.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

During 2014 the District recorded a prior period adjustment of \$46,799 to correct a portion of a Kentucky Department of Transportation contribution that should have been recognized as a construction accounts payable during the period it was received thus restating Net Position on December 31, 2013 from \$8,722,896 to \$8,676,097.

NOTE 14 – SUBSEQUENT EVENTS

On February 19, 2015, the District issued \$1,210,000 in Kentucky Rural Water Series 2015B Public Project Revenue Bonds. The purpose of these bonds is to refinance two FHA Rural Water bonds, one dated 1997 for \$640,500 and one dated 2007 for \$529,000. The interest rate on the principal balance reduces from the current 5.125% and 4.5%, respectively to varying rates ranging from 2.25% to 3.625%. This refinancing will provide nearly \$11,000 in annual savings to the District.

PENDLETON COUNTY WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2014 and 2013
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	<u>2014</u>	<u>2013</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 304,451	\$ 311,404
Employee pension and benefits	112,225	104,913
Advertising	1,085	1,144
Bad debt expense	7,140	7,403
Commissioners' fees	24,000	23,100
Contractual services - accounting	20,260	19,000
Contractual services - other	21,871	20,787
Insurance - general and vehicle	19,233	17,730
Insurance - other	941	945
Insurance - workers' compensation	5,876	5,126
Maintenance	34,599	13,669
Materials and supplies	21,856	21,135
Miscellaneous	5,382	4,258
Purchased power	18,447	17,427
Regulatory commission	2,789	2,305
Rental of equipment	2,291	2,518
Taxes	25,402	24,379
Transportation	22,004	26,179
Utilities	16,663	15,781
	<hr/>	<hr/>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 666,515</u>	<u>\$ 639,203</u>

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

**To the Board of Commissioners
Pendleton 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 *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Pendleton County Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements which collectively comprise Pendleton County Water District's basic financial statements and have issued our report thereon dated April 14, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Pendleton 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 Pendleton County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pendleton 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Lack of Segregation of Duties

Condition: We noted that due to the size of the District and financial considerations, some of the executing and recording of transactions are performed by the same person.

Criteria: Segregation of duties is a necessary part of any system of internal control. Segregating the processes of authorizing, executing and recording transactions is essential.

Effect: Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account. The District has determined that the cost of mitigation is not justified when compared to the risk of the related transactions.

Recommendation: Due to the size of the District and other financial considerations, internal controls should be implemented, to the highest appropriate level, to segregate the duties of the personnel. Controls should then be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pendleton County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. Noncompliance 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 audits, 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.



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
April 14, 2015