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UNION COUNTY WATER DISTRICT

REPORT ON AUDIT OF FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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McELROY, MITCHELL & ASSOCIATES, LLP

CERTIFIED PUBLIC ACCOUNTANTS

BUSINESS CONSULTANTS

PARTNERS

S. MARTIN McELROY, JR., CPA
ROBERT E. MITCHELL, CPA, CVA

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Union County Water District
Morganfield, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Union County Water District as of and for the years ended December 31, 2014 and 2013 and the related notes to the financial statements, which 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express

no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015, on our consideration of Union 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 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 Union County Water District's internal control over financial reporting and compliance.

Morganfield, Mitchell & Associates, LLP

Morganfield, Kentucky
June 25, 2015

UNION COUNTY WATER DISTRICT

Statement of Net Position

December 31, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 240,749	\$ 196,727
Accounts receivable, consumers	159,755	122,905
Other assets	<u>93,311</u>	<u>94,744</u>
Total current assets	<u>493,815</u>	<u>414,376</u>
Restricted assets:		
Cash and cash equivalents	<u>88,032</u>	<u>60,597</u>
Capital assets:		
Non-depreciable	45,452	31,648
Depreciable	13,455,345	10,860,917
Less: accumulated depreciation	<u>(5,562,105)</u>	<u>(5,301,700)</u>
Total capital assets	<u>7,938,692</u>	<u>5,590,865</u>
Total assets	<u>8,520,539</u>	<u>6,065,838</u>

LIABILITIES

	<u>2014</u>	<u>2013</u>
Current liabilities:		
Current portion of long-term debt	-	-
Current portion of obligation under capital lease	-	-
Accounts payable	\$ 12,094	\$ 19,118
Unearned revenue	15,000	15,000
Other accrued liabilities	81,470	66,941
	<u>108,564</u>	<u>101,059</u>
Current liabilities payable from restricted assets:		
Accrued interest payable	2,512	2,973
Current portion of long-term debt	20,000	18,000
	<u>22,512</u>	<u>20,973</u>
Total current liabilities	<u>131,076</u>	<u>122,032</u>
Non-current liabilities:		
Long-term debt, net of current portion	78,000	98,000
Customer advances in aid of construction	2,336	2,604
Total non-current liabilities	<u>80,336</u>	<u>100,604</u>
Total liabilities	<u>211,412</u>	<u>222,636</u>

NET POSITION

Net invested in capital assets	7,860,692	5,492,865
Restricted for debt service	18,183	19,672
Unrestricted	430,252	330,665
Total net position	<u>\$ 8,309,127</u>	<u>\$ 5,843,202</u>

The accompanying notes are an integral part of the financial statements

UNION COUNTY WATER DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Water sales	\$ 1,621,373	\$ 1,321,370
Other revenues	92,959	89,302
	<u>1,714,332</u>	<u>1,410,672</u>
Operating expenses:		
Water purchased	787,162	538,596
Fuel and power purchased for pumping	73,655	61,224
Water transmission and distribution	103,426	136,381
Customer account expense	30,976	33,823
General and administrative	524,795	546,673
Depreciation and amortization	260,405	242,587
	<u>1,780,419</u>	<u>1,559,284</u>
Operating loss	<u>(66,087)</u>	<u>(148,612)</u>
Non-operating revenues (expenses):		
Interest income	60	62
Gain on sale of assets	-	1,550
Interest expense	(5,023)	(8,943)
	<u>(4,963)</u>	<u>(7,331)</u>
Total non-operating expenses	<u>(4,963)</u>	<u>(7,331)</u>
Loss before contributions	(71,050)	(155,943)
Capital contributions	<u>2,536,975</u>	<u>47,252</u>
Change in net position	2,465,925	(108,691)
Total net position- beginning of year	<u>5,843,202</u>	<u>5,951,893</u>
Total net position- end of year	<u>\$ 8,309,127</u>	<u>\$ 5,843,202</u>

The accompanying notes are an integral part of the financial statements

UNION COUNTY WATER DISTRICT
Statement of Cash Flows
For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from customers	\$ 1,677,482	\$ 1,408,700
Payments to suppliers	(1,092,847)	(863,576)
Payments to employees	(418,690)	(452,384)
	<u>165,945</u>	<u>92,740</u>
Net cash provided by operating activities	<u>165,945</u>	<u>92,740</u>
Cash flows from non-capital financing activities:	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(102,899)	(95,568)
Proceeds on sale of capital assets	-	1,550
Principal payments on bond indebtedness	(18,000)	(73,000)
Interest payments on bond indebtedness	(5,484)	(9,403)
Proceeds from contributed capital	31,567	47,252
Proceeds (payments) on customer advances	268	1,523
	<u>-</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(94,548)</u>	<u>(127,646)</u>
Cash flows from investing activities:		
Investment income	<u>60</u>	<u>62</u>
Net cash provided by investing activities	<u>60</u>	<u>62</u>
Net increase(decrease) in cash and cash equivalents	71,457	(34,844)
Cash and cash equivalents, beginning of year	<u>257,324</u>	<u>292,168</u>
Cash and cash equivalents, end of year	<u>\$ 328,781</u>	<u>\$ 257,324</u>

The accompanying notes are an integral part of the financial statements

UNION COUNTY WATER DISTRICT
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 loss	\$ (66,087)	\$ (148,612)
Items to reconcile net operating income to net cash provided by operations:		
Depreciation and amortization	260,405	242,587
Changes in operation assets and liabilities:		
Accounts receivable- consumers	(36,850)	(1,972)
Other assets	1,433	(15,500)
Accounts payable	(7,024)	1,056
Accrued interest payable	(461)	(460)
Deferred revenue	-	10,006
Other accrued liabilities	14,529	5,635
Net cash provided by operating activities	<u>165,945</u>	<u>92,740</u>
 Reconciliation of cash and cash equivalents:		
Unrestricted cash and cash equivalents	\$ 240,749	\$ 196,727
Restricted cash and cash equivalents	88,032	60,597
Total cash and cash equivalents	<u>\$ 328,781</u>	<u>\$ 257,324</u>

The accompanying notes are an integral part of the financial statements

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

1. Summary of Significant Accounting Policies

The Union County Water District's ("District") financial statements are prepared in accordance to generally accepted accounting principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

a. Reporting Entity

In evaluating how to define the entity for financial reporting purposes, management considered whether the District is a component unit of another primary government and all potential component units of the District. The District is a special-purpose district organized to construct, operate, and maintain water service facilities and supply water to customers in Union County, Kentucky. The District is governed by three appointed Commissioners who are nominated and approved by the Union County Fiscal Court. The District purchases its water supply from the City of Morganfield, Kentucky. All of the water purchased by the District has been filtered and treated. The District operates and maintains the distribution system that supplies its end users. The District's basic financial statements include the financial position and the results of operations of the District. A review of other units of local government, using the criteria set forth in generally accepted accounting principles, indicates there are no additional entities or funds for which the District has reporting responsibilities. Management has determined the District should not be considered a part of any unit of local government for reporting purposes for the following reasons:

1. The District has separate legal standing from all other units of government.
2. A primary government appoints the voting majority of the District's Board of Commissioners. However, the primary government is not able to impose its will on the District and there is no potential for the District to provide benefits to or burdens on the primary government.
3. The District is fiscally independent of all other units of local government. The District's Board of Commissioners has the sole authority to determine financial programs, establish rates (subject to Public Service Commission approval) and issue bonded debt.
4. The financial statements of other units of local government would not be misleading or incomplete without the inclusion of the District's financial statements.

b. Basis of Accounting and Presentation

The District is a single-enterprise proprietary fund and uses the accrual basis of accounting. Proprietary funds are used to account for activities that are operated and financed in a manner similar to private business enterprise and that a periodic determination of revenues earned, expenses incurred and/or change in position is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Under the accrual method, revenues are recognized when earned, and expenses are recognized as soon as they result in liabilities for the benefits provided.

1. Summary of Significant Accounting Policies, Continued

b. Basis of Accounting and Presentation, Continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principle ongoing operations. The principle operating revenues of the District are charges to customers for water usage. Operating expenses include the cost of providing water service, administrative expenses and depreciation on capital assets. Other revenues and expenses are reported as non-operating in the financial statements.

Charges for services include revenues based on exchange or exchange-like transactions, namely water and sewer use. Program-specific grants and contributions (operating and capital), include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program, are accrued when all related eligibility requirements have been met.

c. Measurement Focus

The District's enterprise fund is accounted for on an "economic resources" measurement focus. Accordingly, determination of operating income, changes in net position, financial position and cash flows are the primary focus of fund measurement.

d. Cash and Cash Equivalents

The District considers all highly liquid investments with an original maturity of ninety days or less to be cash equivalents.

e. Investments

KRS 66.480 permits the District to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial bank certificates of deposit, savings and loan deposits, and the Commonwealth of Kentucky investment pool. Investments are recorded at fair market value. Certificates of deposit are reported at cost since the redemption terms do not consider market rates. These investments are required to be fully collateralized in accordance with provisions of KRS 66.480.

f. Accounts Receivable

The District's receivable balances are expected to be fully collectible; therefore an allowance for uncollectible accounts has not been recorded.

g. Restricted Assets

Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted cash and cash equivalents represent amounts required by debt covenants to be segregated for future debt payments and accrued interest on long-term debt obligations.

1. Summary of Significant Accounting Policies, Continued

h. Capital Assets

Capital assets represent the cumulative amount of capital assets owned by the District. Capital assets purchased or acquired are reported at historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. All capital assets except land and construction in progress are depreciated. Depreciation is provided for by using the straight-line method over the following estimated useful lives of the assets:

Structures, lines, mains and accessories, and system improvements	50 years
Equipment, including hydrants, pumps and meters	5-30 years
Transportation equipment	5 years

i. Debt Issue Cost

Issue costs on bonds payable are being amortized using the outstanding bonds method.

j. Unearned Revenues

The District reports unearned revenue on its statement of net position. Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met the liability for the unearned revenue is removed from the statement of net position and revenue is recognized.

k. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the District and its employees is accrued as employees earn the rights to the benefits. The District's policy is to accrue up to 30 days of unused vacation, which is payable upon termination of employment. Employees can accrue up to 60 days of sick leave, which upon termination of employment has no monetary value. Compensated absence activity for the year ended December 31, 2014 was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>Jan. 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Dec. 31, 2014</u>
Compensated absences	\$ 3,166	7,942	(6,277)	\$ 4,831

1. Summary of Significant Accounting Policies, Continued

l. Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Proprietary fund net position is divided into three components:

- Net investment in capital assets- consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted- consist of net position that is restricted by the District's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors less related liabilities and deferred inflows of resources.
- Unrestricted- all other net position is reported in this category.

m. Use of Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted resources (net position) are available, the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

n. New Accounting Pronouncements

The District will implement GASB 68, *Accounting and Financial Reporting for Pensions- an amendment to GASB Statement No. 27*, in the fiscal year ending June 30, 2015 in regards to the District's participation in the County Employee Retirement System (CERS). GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

2. Deposits

At December 31, 2014, the Union County Water District maintained deposits of \$339,270 at two financial institutions. Of these bank balances \$290,693 was covered by federal depository insurance and the balance of \$48,577 was fully collateralized by pledged securities.

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

3. Restricted Assets

The Union County Water District had certain assets restricted for debt service by third parties and for capital improvements and maintenance by Board designation as December 31, 2014 and 2013:

<u>Assets Restricted for:</u>	<u>2014</u>	<u>2013</u>
Debt service	\$ 40,695	\$ 40,645
Capital improvements and maintenance	47,337	19,952
Total restricted assets	<u>\$ 88,032</u>	<u>\$ 60,597</u>

The District had certain assets and corresponding net position reserved for debt service which were restricted due to its outstanding debt. These consisted of a cash reserve and sinking fund for the United States Department of Agriculture note.

<u>Restricted Assets for Debt Service:</u>	<u>2014</u>	<u>2013</u>
Sinking Fund	\$ 22,517	\$ 29,187
Reserve Fund	18,178	11,458
Total restricted assets	<u>40,695</u>	<u>40,645</u>
Less: Accrued current liabilities payable from restricted assets:		
Principal	20,000	18,000
Interest	2,512	2,973
	<u>22,512</u>	<u>20,973</u>
Net position restricted for debt service	<u>\$ 18,183</u>	<u>\$ 19,672</u>

4. Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2014:

	<u>December 31, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2014</u>
Capital assets not depreciated:				
Land and land rights	\$ 10,175	\$ -	\$ -	\$ 10,175
Construction in progress	21,473	13,804	-	35,277
	<u>31,648</u>	<u>13,804</u>	<u>-</u>	<u>45,452</u>

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

4. Capital Assets, Continued

	December 31, 2013	Additions	Disposals	December 31, 2014
Capital assets depreciated:				
Transport and distribution mains	4,132,693	-	-	4,132,693
Other transport and distribution plant	25,354	-	-	25,354
Distribution reservoirs and standpipe	4,646,338	2,232,608	-	6,878,946
Meters	1,092,090	41,987	-	1,134,077
Hydrants	34,523	-	-	34,523
Electric pumping equipment	688,553	315,915	-	1,004,468
Structures and improvements	20,202	-	-	20,202
Equipment	119,250	-	-	119,250
Transportation equipment	68,910	-	-	68,910
Office equipment and software	22,104	3,918	-	26,022
Other tangible property	10,900	-	-	10,900
	<u>10,860,917</u>	<u>2,594,428</u>	<u>-</u>	<u>13,455,345</u>
Total assets at historical cost	10,892,565	2,594,428	-	13,500,797
Less accumulated depreciation	<u>(5,301,700)</u>	<u>(260,405)</u>	<u>-</u>	<u>(5,562,105)</u>
Total capital assets, net	<u>\$ 5,590,865</u>	<u>\$ 2,334,023</u>	<u>\$ -</u>	<u>\$ 7,938,692</u>

Depreciation expense amounted to \$260,405 and \$242,263 for the years ended December 31, 2014 and 2013, respectively. Amortization expense amounted to \$0 and \$324 for the years ended December 31, 2014 and 2013, respectively.

5. Long-Term Debt

Long-term debt of the District consisted of the following as of December 31, 2014 and 2013:

	December 31, 2014				
	Balance Dec. 31, 2012	Additions	Deductions	Balance Dec. 31, 2013	Due Within One Year
USDA Loan	\$ 116,000	\$ -	\$ (18,000)	\$ 98,000	\$ 20,000
Total long-term debt	<u>116,000</u>	<u>-</u>	<u>(18,000)</u>	<u>98,000</u>	<u>\$ 20,000</u>

Presented on the balance sheet under the following captions:

Current portion long-term debt payable	
from restricted assets	\$ 20,000
Long-term debt, net of current portion	<u>78,000</u>
	<u>\$ 98,000</u>

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

5. Long-Term Debt, Continued

Principal and interest requirements to retire the District's long-term obligations at December 31, 2014 were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 20,000	\$ 4,510	\$ 24,510
2016	20,000	3,485	23,485
2017	22,000	2,409	24,409
2018	23,000	1,256	24,256
2019	13,000	333	13,333
	<u>\$ 98,000</u>	<u>\$ 11,993</u>	<u>\$ 109,993</u>

Other information on the District's long-term indebtedness is summarized below:

	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Principal Balance</u>	<u>Security</u>
USDA Loan	5.125%	1/1/2019	\$ 98,000	Utility Revenues

December 31, 2013

	<u>Balance</u>		<u>Balance</u>	<u>Due Within</u>
	<u>Dec. 31, 2012</u>	<u>Additions</u>	<u>Dec. 31, 2013</u>	<u>One Year</u>
USDA Loan	\$ 134,000	\$ -	\$ (18,000)	\$ 18,000
KIA Assistance Agreement	55,000	-	(55,000)	-
Total long-term debt	<u>189,000</u>	<u>-</u>	<u>116,000</u>	<u>\$ 18,000</u>

6. Line of Credit

The District had a line of credit in the amount of \$300,000 with United Community Bank through October 15, 2014, held in connection with various construction projects. The line of credit bore interest at the prime rate minus 0.43% and was unsecured. No balance was outstanding during period line of credit available.

7. Operating Lease

The Union County Water District entered into a lease agreement with the Union County Fiscal Court to lease office space. The original lease was for a term of twenty-eight months expiring December 31, 2011 with an option for three annual renewals. The District is in the final year of annual renewal. The monthly rent expense is \$500. An additional lease agreement with the same financial terms was signed in January 2014 for the term of twenty-four months expiring December 31, 2015.

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

8. County Employees Retirement System (CERS)

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

Covered employees are required to contribute 5 percent of their salary to the plan. Covered employees who began participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The District's contribution rate for employees was 18.89% through June 30, 2014 and 17.67% after July 1, 2014.

The District's contributions for the fiscal years ending December 31 were as follows:

Year	Amount
2014	\$ 38,725
2013	43,184
2012	42,360

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

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

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

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

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

9. Deferred Compensation

The District allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

10. Concentrations of Sales

For the year ended December 31, 2014, three industrial customers in the coal mining industry accounted for \$585,811 in sales and surcharges for approximately 34% of the District's total operating revenues. For the year ended December 31, 2013, sales attributable to these companies were \$508,152 or approximately 36% of total operating revenues.

11. Commitments

The District entered into an agreement dated December 19, 1986 with the City of Morganfield, Kentucky whereby the City agrees to sell and deliver to the District and the District agrees to purchase and receive from the City all of the water required by the District up to a maximum of 1,000,000 gallons per day. The District can purchase water from other suppliers only in the event of an emergency. The agreement outlines a specific method of determining the City's cost of water produced during the previous fiscal year which is the rate charged to the District for the next year. The agreement covers a period of 42 years which expires December 19, 2028.

On July 3, 2013, the District and the City of Morganfield amended the contract to increase the maximum amount of water which the City must furnish to the District during any twenty-four (24) hour period by 1,000,000 gallons to a maximum of 2,000,000 gallons per day.

12. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District carries commercial insurance for these types of risk of loss, including workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

13. Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 25, 2015, the date the financial statements were available to be issued.

McELROY, MITCHELL & ASSOCIATES, LLP

CERTIFIED PUBLIC ACCOUNTANTS

BUSINESS CONSULTANTS

Independent Auditors' 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*

PARTNERS

S. MARTIN McELROY, JR., CPA
ROBERT E. MITCHELL, CPA, CVA

To the Commissioners
Union County Water District
Morganfield, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Union 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 District's basic financial statements and have issued our report thereon dated June 25, 2015.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations,

during our audit we did not identify any deficiencies in internal control 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 in the accompanying schedule of findings and responses that we consider to be significant deficiencies. [A-1 and A-2]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Union 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 with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with such 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*.

Union County Water District's Response to Findings

The Union County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of the 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.

M. E. Mitchell & Associates, LLP

Morganfield, Kentucky
June 25, 2015

Schedule of Findings & Responses

A-1 Control Risk Related To Lack Of Segregation Of Duties:

Due to a limited number of personnel employed at the District, incompatible work functions are often performed by the same individual and a high degree of trust is necessitated.

Criteria: Each key step of an accounting system should be segregated among employees. Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition.

Effect: The staff size of the District limits the ability to rotate duties and implement some checking procedures. This limitation may affect the ability to record, process, summarize and report financial data.

Recommendation: We recommend that management always be mindful of key functions assigned to employees and provide oversight in all steps of the accounting system.

Response: Management concurs with the recommendation and has taken steps to separate functions and provide oversight where needed.

A-2 Control Risk Due to Lack of Qualifications to Fulfill Assigned Functions

The auditor, from the District's books of original entry, prepares the financial statements and notes for the Union County Water District.

Criteria: Internal controls should be put in place for the District to review and approve generally accepted accounting principles (GAAP) financial statements and notes. The District is to accept full responsibility for the accuracy of the GAAP financial statements and notes.

Effect: Based upon the entity's present financial statements, the client's auditor is currently preparing the audit financial statements and disclosures.

Recommendation: Procedures should be implemented to allow the District to prepare their own GAAP financial statements and notes.

Response: Management is aware of the situation regarding the preparation of GAAP financial statements and is continuing to determine the best way to handle the situation.