

**U.S. 60 WATER DISTRICT
OF SHELBY AND FRANKLIN COUNTIES**

**BASIC FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS**

At December 31, 2014 and 2013

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
BASIC FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
U.S. 60 Water District of Shelby and Franklin Counties
Bagdad, Kentucky 40003

Report on the Financial Statements

We have audited the accompanying financial statements of U.S. 60 Water District of Shelby and Franklin Counties as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the U.S. 60 Water District of Shelby and Franklin Counties' 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. 60 Water District of Shelby and Franklin Counties, as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the 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 March 20, 2015, on our consideration of the U.S. 60 Water District of Shelby and Franklin Counties' 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 U.S. 60 Water District of Shelby and Franklin Counties' internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 20, 2015

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF NET POSITION
December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 1,439,487	\$ 1,665,958
Accounts Receivable (Net)	137,948	134,082
Interest Receivable	44	640
Prepaid Insurance	6,222	7,282
Total Current Assets	\$ 1,583,701	\$ 1,807,962
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 1,498,148	\$ 734,147
Interest Receivable	304	302
Capital Assets (Net)	6,445,941	5,845,628
Total Noncurrent Assets	\$ 7,944,393	\$ 6,580,077
Total Assets	\$ 9,528,094	\$ 8,388,039
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 103,661	\$ 62,165
Accounts Payable - Construction	423,138	1,547
Retainage Payable	62,170	-
Accrued Payroll Taxes/Employee Withholding	1,286	1,281
Utility Tax Payable	2,715	2,514
Sales Tax Payable	100	113
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Customer Deposits	120	118
Accrued Interest Payable - Long Term Debt	27,235	26,717
Revenue Bonds Payable	48,800	53,300
Notes Payable	16,023	17,500
Total Current Liabilities	\$ 685,248	\$ 165,255
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 1,497,100	\$ 1,545,900
Notes Payable	746,193	-
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	121,964	120,889
Total Noncurrent Liabilities	\$ 2,365,257	\$ 1,666,789
Total Liabilities	\$ 3,050,505	\$ 1,832,044
NET POSITION		
Net Investment in Capital Assets	\$ 4,137,825	\$ 4,228,928
Restricted for Capital Projects	811,755	89,789
Restricted for Debt Service	537,499	497,054
Unrestricted	990,510	1,740,224
Total Net Position	\$ 6,477,589	\$ 6,555,995

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,068,308	\$ 1,030,519
Total Charges for Services	<u>\$ 1,068,308</u>	<u>\$ 1,030,519</u>
Other Charges and Miscellaneous:		
Forfeited Discounts & Service Charges	\$ 33,344	\$ 37,071
Miscellaneous	-	1,656
Total Other Charges and Miscellaneous	<u>\$ 33,344</u>	<u>\$ 38,727</u>
Total Operating Revenues	<u>\$ 1,101,652</u>	<u>\$ 1,069,246</u>
Operating Expenses:		
Commissioner Fees	\$ 13,500	\$ 13,200
Contractual Service	182,375	170,536
Insurance	11,670	10,535
Maintenance of Mains	52,337	40,254
Miscellaneous	2,448	2,178
Office Supplies and Expense	21,514	19,690
Other Interest Expense	361	382
Payroll Taxes	1,411	1,349
Professional Services	32,236	28,143
Purchased Water	411,523	341,883
Purchased Power	36,621	29,983
Regulatory Fees	2,090	2,433
Rental of Building	24,000	24,000
Rental of Equipment	58,001	59,562
Depreciation Expense	228,490	230,570
Total Operating Expenses	<u>\$ 1,078,577</u>	<u>\$ 974,698</u>
Net Operating Income	<u>\$ 23,075</u>	<u>\$ 94,548</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 5,278	\$ 6,337
KIA Debt Reduction	12,837	12,837
Interest Expense	(63,140)	(69,912)
Bond Issuance Costs	-	(13,808)
Gain (Loss) on Sale/Abandonment of Fixed Assets	1,836	-
Total Nonoperating Revenue (Expense)	<u>\$ (43,189)</u>	<u>\$ (64,546)</u>
Net Income Before Contributions	\$ (20,114)	\$ 30,002
Capital Contributions	9,655	91,800
Extraordinary Item	(67,947)	-
Net Income	\$ (78,406)	\$ 121,802
Net Position--Beginning of Year	<u>6,555,995</u>	<u>6,434,193</u>
Net Position--End of Year	<u>\$ 6,477,589</u>	<u>\$ 6,555,995</u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,097,786	\$ 1,052,909
Payments to Suppliers	(791,631)	(739,746)
Payments to Employees	(15,900)	(15,600)
Other Receipts (Payments)	1,270	3,168
Net Cash Provided (Used) by Operating Activities	\$ 291,525	\$ 300,731
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant Proceeds	\$ -	\$ 81,500
Capital Contributions	9,655	10,300
Purchase of Capital Assets	(412,990)	(17,017)
Note Proceeds	762,216	-
Bond Proceeds	-	490,000
Proceeds - KIA Debt Reduction	12,837	12,837
Proceeds from Sale of Capital Assets	1,837	-
Bond Issuance Costs	-	(13,808)
Principal Paid on Long Term Debt	(70,800)	(542,600)
Interest Paid on Long Term Debt	(62,622)	(79,096)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ 240,133	\$ (57,884)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Withdrawn From [Invested in] Certificates of Deposit	\$ 398,528	\$ 284,092
Interest Received	5,873	6,586
Net Cash Provided (Used) by Investing Activities	\$ 404,401	\$ 290,678
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 936,059	\$ 533,525
Balances-Beginning of the Year	1,691,335	1,157,810
Balances-End of the Year	\$ 2,627,394	\$ 1,691,335

	Balances Per December 31, 2014 Statement of Net Position	Balances Per December 31, 2014 Statement of Cash Flows
Cash	\$ 1,296,956	\$ 1,296,956
Time Deposits	142,531	-
Restricted Cash	1,330,438	1,330,438
Restricted Time Deposits	167,710	-
Total Cash and Cash Equivalents, End of Year	\$ 2,937,635	\$ 2,627,394

	Balances Per December 31, 2013 Statement of Net Position	Balances Per December 31, 2013 Statement of Cash Flows
Cash	\$ 1,124,229	\$ 1,124,229
Time Deposits	541,729	-
Restricted Cash	567,106	567,106
Restricted Time Deposits	167,041	-
Total Cash and Cash Equivalents, End of Year	\$ 2,400,105	\$ 1,691,335

(Continued)

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 23,075	\$ 94,548
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	228,490	230,570
Change in Assets and Liabilities:		
Receivables, Net	(3,866)	(16,337)
Prepaid Expenses	1,060	(1,265)
Accounts and Other Payables	41,496	(9,953)
Accrued Expenses	195	(702)
Customer Meter Deposits Payable	1,075	3,870
Net Cash Provided by Operating Activities	\$ 291,525	\$ 300,731

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2014, U.S. 60 Water District of Shelby and Franklin Counties had \$485,308 capitalized expenditures for the construction/acquisition of plant assets included in accounts payable - construction and retainage payable on the Statement of Net Position.

At December 31, 2013, U.S. 60 Water District of Shelby and Franklin Counties had \$1,547 of capitalized expenditures for the construction/acquisition of plant assets included in accounts payable construction on the Statement of Net Position.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The U.S. 60 Water District of Shelby and Franklin Counties is a rural Water District serving customers in Anderson, Franklin, Shelby and Spencer Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The Water District was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in June, 1960.

In evaluating how to define U.S. 60 Water District of Shelby and Franklin Counties for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of Presentation and Accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds 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 (expenses, 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.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. 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 plus deferred outflows net of total liabilities and deferred inflows) are segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and Expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. The District adheres to the use restrictions established by debt agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs of major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Distribution System	15-50 years
- Machinery & Equipment	5-50 years

Bond and Note Payable Issuance Costs: Such costs are expensed as incurred.

Deferred Outflows and Deferred Inflows: Deferred inflows of resources and deferred outflows of resources are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

Income Taxes: The U.S. 60 Water District of Shelby and Franklin Counties is not subject to income taxes.

Contributed Capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses, and changes in fund net position. Grant funds of \$0 and \$81,500 were received by the District for the years ended December 31, 2014 and 2013, respectively. Tap-on fees of \$9,655 and \$10,300 were received by the District for the years ended December 31, 2014 and 2013, respectively.

Net Position: Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, U.S. 60 Water District of Shelby and Franklin Counties considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

A Bond and Interest Sinking Account was established with the original RECD bond issue, and is to be maintained as long as any of the 1992, 1998, 2008A, 2008B, or 2013B issues are outstanding. A minimum balance is to be maintained in this account as security to the bondholders. In order to attain the minimum balance, a monthly transfer must be made as follows:

$$\begin{aligned} & \text{one sixth (1/6) of the next semiannual interest payment} \\ + & \text{one twelfth (1/12) of the next annual principal payment} \\ = & \text{monthly transfer} \end{aligned}$$

Transfers sufficient to meet the total obligation were made timely during the years ended December 31, 2014 and 2013.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS (Continued)

Under the 1992, 1998, 2008A, and 2008B bond resolutions, a Depreciation Account is to be maintained as long as any of the bonds are outstanding to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. The 2013B bond resolution maintained the provisions of the prior bond legislation. The required minimum monthly transfers and balances are as follows:

	<u>Monthly Requirements</u>	<u>Minimum Accumulated Balance</u>
1992 Bond Issue	\$185/month	\$ 22,200
1998 Bond Issue	\$215/month	25,800
2008A & B Bond Issues	\$377/month	44,400
	<u>Total</u>	<u>\$ 92,400</u>

When the required balance of \$92,400 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. While the depreciation account was fully funded for the years ended December 31, 2014 and 2013, monthly transfers continue to be made. Once the Kentucky Infrastructure Authority note has been closed, the District will have additional depreciation fund requirements.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2014, and 2013 in accordance with District policy, \$1,305,887 and \$1,272,230, respectively, of the District's deposits were covered by federal depository insurance and \$1,633,493 and \$1,148,679 were collateralized by securities held by the pledging financial institution's agent or trust department in the District's name. Thus, the district had no deposits that were exposed to custodial credit risk.

U.S. 60 Water District's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2014 and 2013. The categories of credit risk are defined as follows:

- Category 1 – Insured by FDIC Insurance or collateralized with a depository surety bond or securities held by the District (public trust) or by its agent in its name.
- Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013

NOTE 3 – CASH AND INVESTMENTS (Continued)

December 31, 2014

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Custody Credit Risk Category</u>			<u>Total Carrying Value</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Demand Deposits	\$ 1,860,999	\$ 500,000	\$ 1,360,999	\$ -	\$ 1,859,254
Time and Savings	1,078,381	805,887	272,494	-	1,078,381
Total Deposits	\$ 2,939,380	\$ 1,305,887	\$ 1,633,493	\$ -	\$ 2,937,635

December 31, 2013

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Custody Credit Risk Category</u>			<u>Total Carrying Value</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Demand Deposits	\$ 1,181,994	\$ 500,000	\$ 681,994	\$ -	\$ 1,691,335
Time and Savings	1,238,915	772,230	466,685	-	708,770
Total Deposits	\$ 2,420,909	\$ 1,272,230	\$ 1,148,679	\$ -	\$ 2,400,105

Reconciliation to Statement of Net Position:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Unrestricted Cash, Including Time Deposits	\$ 1,439,487	\$ 1,665,958
Restricted Cash, Including Time Deposits	1,498,148	734,147
	\$ 2,937,635	\$ 2,400,105

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Bond and Interest Sinking Accounts	\$ 305,887	\$ 272,230
Depreciation Accounts	258,542	251,239
Customer Deposits	121,964	120,889
Construction Accounts	811,755	89,789
Total	\$ 1,498,148	\$ 734,147

Restricted receivables consist of the following:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Interest Receivable	\$ 304	\$ 302

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$11,051 and \$6,983 at December 31, 2014 and 2013, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

Estimated unbilled water service of \$48,356 and \$52,430 is included in accounts receivable at December 31, 2014 and 2013, respectively.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2014 and 2013, was as follows:

	Balance at January 1, 2014	Additions	Disposals	Balance at December 31, 2014
Structures & Improvements	\$ 24,234	\$ -	\$ -	\$ 24,234
Distribution System	9,093,574	27,155	(203,191)	8,917,538
Machinery & Equipment	306,959	-	-	306,959
Construction in Process	8,264	869,596	-	877,860
Totals at Historical Cost	\$ 9,433,031	\$ 896,751	\$ (203,191)	\$ 10,126,591
Less: Accumulated Depreciation				
Structures & Improvements	\$ (22,605)	\$ (254)	\$ -	\$ (22,859)
Distribution System	(3,410,152)	(219,156)	135,243	(3,494,065)
Machinery & Equipment	(154,646)	(9,080)	-	(163,726)
Total Accumulated Depreciation	\$ (3,587,403)	\$ (228,490)	\$ 135,243	\$ (3,680,650)
Capital Assets, Net	\$ 5,845,628	\$ 668,261	\$ (67,948)	\$ 6,445,941

	Balance at January 1, 2013	Additions	Disposals	Balance at December 31, 2013
Structures & Improvements	\$ 24,234	\$ -	\$ -	\$ 24,234
Distribution System	9,083,274	10,300	-	9,093,574
Machinery & Equipment	306,959	-	-	306,959
Construction in Process	-	8,264	-	8,264
Totals at Historical Cost	\$ 9,414,467	\$ 18,564	\$ -	\$ 9,433,031
Less: Accumulated Depreciation				
Structures & Improvements	\$ (22,351)	\$ (254)	\$ -	\$ (22,605)
Distribution System	(3,188,916)	(221,236)	-	(3,410,152)
Machinery & Equipment	(145,566)	(9,080)	-	(154,646)
Total Accumulated Depreciation	\$ (3,356,833)	\$ (230,570)	\$ -	\$ (3,587,403)
Capital Assets, Net	\$ 6,057,634	\$ (212,006)	\$ -	\$ 5,845,628

Included under the District's capital assets were \$580,064 and \$570,495 of fully depreciated assets at December 31, 2014 and 2013, respectively. Construction in process is not depreciated.

Depreciation expense for 2014 and 2013 was \$228,490 and \$230,570, respectively.

NOTE 7 – CUSTOMER DEPOSITS

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Records are maintained which detail the accrued interest on each customer's deposit based on the current annual rate. Accrued interest is paid when the deposit is refunded or credited to the customer's account annually.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

NOTE 7 – CUSTOMER DEPOSITS (Continued)

At December 31, 2014 and 2013, accrued interest on customer deposits was \$120 and \$118 respectively. The District has not maintained a separate bank account specifically for cash collected and disbursed relating to customer deposits.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2014 and 2013, long-term debt payable consisted of the following:

Bonds Payable:

	December 31, 2014	December 31, 2013
1998 Revenue Bonds, original issue amount of \$460,700, secured by water revenues. Interest is charged at the rate of 4.5% per annum. Final maturity is February, 2038.	\$ 370,100	\$ 378,600
2008A Revenue Bonds, original issue amount of \$145,000, secured by water revenues. Interest is charged at the rate of 4.5% per annum. Final maturity is February, 2047.	136,800	138,600
2008B Revenue Bonds, original issue amount of \$619,000, secured by water revenues. Interest is charged at the rate 4.625% per annum. Final maturity is February, 2047.	584,000	592,000
2013B Revenue Bonds (Flexible Term Program) original issue amount of \$490,000, secured by water revenues. Interest is charged at the rates of 2.30% - 3.55% per annum. Final maturity is February 1, 2032.	455,000	490,000
Total Bonds Payable	\$ 1,545,900	\$ 1,599,200
Current Portion	\$ 48,800	\$ 53,300
Noncurrent Portion	1,497,100	1,545,900
Total Bonds Payable	\$ 1,545,900	\$ 1,599,200

Bonds Payable Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2013B

On February 27, 2013, U.S. 60 Water District of Shelby and Franklin Counties issued \$490,000, Series 2013B Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds with interest rates of 2.30% - 3.55% to advance refund \$247,000 Series 1986 and \$227,900 Series 1992 revenue bonds outstanding. The 1986 Series was originally issued at 7.625%. The 1992 Series was issued at 6.125%. The refunded bonds were redeemed on February 27, 2013 at a price equal to 100% of the principal amounts of the refunded bonds outstanding at that date. Bond issuance costs were \$13,808.

As a result of the advance refunding, the District reduced its total debt service requirements by \$166,686, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$122,451. Final maturity on the 2013 issue is February 1, 2032.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2014 and 2013

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all bonds payable outstanding at December 31, 2014 are as follows:

	Principal	Interest	Total
2015	\$ 48,800	\$ 61,325	\$ 110,125
2016	49,300	59,767	109,067
2017	50,800	58,165	108,965
2018	56,200	56,462	112,662
2019	56,800	54,677	111,477
2020-2024	312,200	243,177	555,377
2025-2029	239,200	189,181	428,381
2030-2034	229,800	140,345	370,145
2035-2039	221,500	88,710	310,210
2040-2044	163,800	46,595	210,395
2045-2047	117,500	8,301	125,801
	<u>\$ 1,545,900</u>	<u>\$ 1,006,705</u>	<u>\$ 2,552,605</u>

The annual requirements for all bonds payable outstanding at December 31, 2013 are as follows:

	Principal	Interest	Total
2014	\$ 53,300	\$ 62,918	\$ 116,218
2015	48,800	61,325	110,125
2016	49,300	59,767	109,067
2017	50,800	58,165	108,965
2018	56,200	56,462	112,662
2019-2023	301,100	253,702	554,802
2024-2028	262,200	199,204	461,404
2029-2033	230,900	150,434	381,334
2034-2038	236,900	99,153	336,053
2039-2043	156,500	53,965	210,465
2044-2047	153,200	14,528	167,728
	<u>\$ 1,599,200</u>	<u>\$ 1,069,623</u>	<u>\$ 2,668,823</u>

Notes Payable:

1993 Kentucky Infrastructure note, original loan amount \$556,481, secured by water revenues. Interest is charged from 2.25% to 5.29% per annum. Final maturity is June, 2014.

	December 31, 2014	December 31, 2013
	\$ -	\$ 17,500

2014 Kentucky Infrastructure Authority note, original amount \$1,300,000, secured by water revenues. Interest is charged at a rate of 1.750 % per annum. Total draws on note as of December 31, 2014 were \$762,216. The 2014 Kentucky Infrastructure Authority note had not closed as of December 31, 2014.

	762,216	-
Total Notes Payable	<u>\$ 762,216</u>	<u>\$ 17,500</u>

Total Notes Payable

Current Portion
Noncurrent Portion

	December 31, 2014	December 31, 2013
	\$ 16,023	\$ 17,500
	746,193	-
Total Notes Payable	<u>\$ 762,216</u>	<u>\$ 17,500</u>

Total Notes Payable

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2014 and 2013

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all notes payable outstanding at December 31, 2014 are as follows:

	Principal	Interest	Service Fees	Total
2015	\$ 16,023	\$ 12,243	\$ 1,753	\$ 30,019
2016	32,467	12,938	1,864	47,269
2017	33,037	12,367	1,797	47,201
2018	33,618	11,787	1,727	47,132
2019	34,209	11,196	1,655	47,060
2020-2024	180,278	46,747	7,082	234,107
2025-2029	196,689	30,335	4,797	231,821
2030-2034	214,593	12,431	2,045	229,069
2035-2039	21,302	197	33	21,532
	<u>\$ 762,216</u>	<u>\$ 150,241</u>	<u>\$ 22,753</u>	<u>\$ 935,210</u>

The annual requirements for all notes payable outstanding at December 31, 2013 are as follows:

	Principal	Interest	Service Fees	Total
2014	\$ 17,500	\$ 926	\$ 35	\$ 18,461
	<u>\$ 17,500</u>	<u>\$ 926</u>	<u>\$ 35</u>	<u>\$ 18,461</u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2014.

	Balance at January 1, 2014	Additions	Retirements	Balance at December 31, 2014	Current Portion
Revenue Bonds Payable	\$ 1,599,200	\$ -	\$ 53,300	\$ 1,545,900	\$ 48,800
Notes Payable	17,500	762,216	17,500	762,216	16,023
Total Long-Term Debt	<u>\$ 1,616,700</u>	<u>\$ 762,216</u>	<u>\$ 70,800</u>	<u>\$ 2,308,116</u>	<u>\$ 64,823</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2013.

	Balance at January 1, 2013	Additions	Retirements	Balance at December 31, 2013	Current Portion
Revenue Bonds Payable	\$ 1,616,800	\$ 490,000	\$ 507,600	\$ 1,599,200	\$ 53,300
Notes Payable	52,500	-	35,000	17,500	17,500
Total Long-Term Debt	<u>\$ 1,669,300</u>	<u>\$ 490,000</u>	<u>\$ 542,600</u>	<u>\$ 1,616,700</u>	<u>\$ 70,800</u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2014 and 2013

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all long-term debt outstanding at December 31, 2014 is as follows:

	Principal	Interest	Service Fees	Total
2015	\$ 64,823	\$ 73,568	\$ 1,753	\$ 140,144
2016	81,767	72,705	1,864	156,336
2017	83,837	70,532	1,797	156,166
2018	89,818	68,249	1,727	159,794
2019	91,009	65,873	1,655	158,537
2020-2024	492,478	289,924	7,082	789,484
2025-2029	435,889	219,516	4,797	660,202
2030-2034	444,393	152,776	2,045	599,214
2035-2039	242,802	88,907	33	331,742
2040-2044	163,800	46,595	-	210,395
2045-2047	117,500	8,301	-	125,801
	<u>\$ 2,308,116</u>	<u>\$ 1,156,946</u>	<u>\$ 22,753</u>	<u>\$ 3,487,815</u>

The annual requirements for all long-term debt outstanding at December 31, 2013 is as follows:

	Principal	Interest	Service Fees	Total
2014	\$ 70,800	\$ 63,844	\$ 35	\$ 134,679
2015	48,800	61,325	-	110,125
2016	49,300	59,767	-	109,067
2017	50,800	58,165	-	108,965
2018	56,200	56,462	-	112,662
2019-2023	301,100	253,702	-	554,802
2024-2028	262,200	199,204	-	461,404
2029-2033	230,900	150,434	-	381,334
2034-2038	236,900	99,153	-	336,053
2039-2043	156,500	53,965	-	210,465
2044-2047	153,200	14,528	-	167,728
	<u>\$ 1,616,700</u>	<u>\$ 1,070,549</u>	<u>\$ 35</u>	<u>\$ 2,687,284</u>

NOTE 9 – INTEREST EXPENSE

Interest expense incurred for the year ended December 31, 2014 and 2013 was \$63,501 and \$70,294, respectively. No interest was capitalized in 2014 or 2013.

NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION

	December 31, 2014	December 31, 2013
Restricted for Capital Projects:		
Monies Restricted for Construction	\$ 811,755	\$ 89,789
Total Restricted for Capital Projects	<u>\$ 811,755</u>	<u>\$ 89,789</u>

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION (Continued)

Restricted for Debt Service:

Revenue Bonds of 1998, 2008A, 2008B, & 2013B

Cash	\$	564,430	\$	523,469
Add: Accrued Interest Receivable		304		302
Less: Accrued Interest Payable		(27,235)		(26,717)
Total Restricted for Debt Service	\$	537,499	\$	497,054

NOTE 11 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$5,763 and \$1,532 at December 31, 2014 and 2013, respectively.

NOTE 12 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. and is also subject to the risks associated with employee injury. Each of these risks is covered through the purchase of commercial insurance.

NOTE 13 – ECONOMIC DEPENDENCY

The District purchased 100.00% of the water it sold from Frankfort Electric and Water Plant Board for the years ended December 31, 2014 and 2013.

NOTE 14 – OPERATION AND MAINTENANCE CONTRACT

North Shelby Water Company furnishes managerial, meter reading, maintenance, meter installation, accounts receivable processing, and general office services to U.S. 60 Water District. The District paid \$268,154 and \$271,198 for the years ended December 31, 2014 and 2013, respectively. There was a payable due to North Shelby Water Company in the amount of \$27,132 at December 31, 2014. In 2013, there was an overpayment to North Shelby Water Company in the amount of \$583.

NOTE 15 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

U.S. 60 Water District is in the process of a conversion of meters to radio-read meters along with the construction of a new water tank. As of December 31, 2014, \$877,860 has been expended for this project. Completion is expected during 2015.

During 2014, U.S. 60 Water District had a 100,000 gallon water tank collapse. The tank collapse caused damage to three properties surrounding the tank. The district expended \$5,800 in clean-up and any further liability is expected to be covered by the District's insurance. The loss associated with the tank asset was \$67,947. No insurance proceeds have been received by U.S. 60 Water District for the collapse of the tank. Any further insurance proceeds, if any, are unable to be estimated.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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

To the Commissioners of the
U.S. 60 Water District of Shelby and Franklin Counties
Bagdad, KY 40003

We have audited 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, the financial statements of U.S. 60 Water District of Shelby and Franklin Counties as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise U.S. 60 Water District of Shelby and Franklin Counties' basic financial statements, and have issued our report thereon dated March 20, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered U.S. 60 Water District of Shelby and Franklin Counties' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of U.S. 60 Water District of Shelby and Franklin Counties' internal control. Accordingly, we do not express an opinion on the effectiveness of U.S. 60 Water District of Shelby and Franklin Counties' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Items 2014-001 and 2014-002).

COMPLIANCE AND OTHER MATTERS

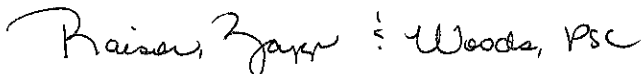
As part of obtaining reasonable assurance about whether U.S. 60 Water District of Shelby and Franklin Counties' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with 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*.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES' RESPONSE TO FINDINGS

U.S. 60 Water District of Shelby and Franklin Counties' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. U.S. 60 Water District of Shelby and Franklin Counties' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



RAISOR, ZAPP, & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

March 20, 2015

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2014**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of U.S. 60 Water District of Shelby and Franklin Counties.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the 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*. Items 2014-001 and 2014-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of U.S. 60 Water District of Shelby and Franklin Counties, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2014-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2013 as Item 2013-001.

CRITERIA:

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, and allow timely preparation of financial data consistent with management assertions.

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data. During the current year a pass through rate increase was not updated in the computer timely resulting in underbilled amounts.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes.

RESPONSE:

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the staff size and responsibility of financial personnel.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2014**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL (Continued)

2014-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2013 as Item 2013-002.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft accrual basis financial statements and disclosures are prepared during the audit process. Recommended adjusting entries are approved and entered into the District's general ledger/financial reports.

EFFECT:

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

RESPONSE:

The outsourcing of this service is a result of management's cost benefit decision to use others' accounting expertise rather than incur internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities.

COMPLIANCE AND OTHER MATTERS

NONE