

LYON COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

And

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Table of Contents

Accountant's Compilation Report	1
Management's Discussion and Analysis	2-4
Financial Statements:	
Statement of Net Position	5
Statement of Revenues, Expenses, and Changes in Net Position	6
Statement of Cash Flows	7
Notes to the Financial Statements	8-16



THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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ACCOUNTANT'S COMPILATION REPORT

To the Members of the Commission
Lyon County Water District

We have compiled the accompanying financial statements of Lyon County Water District, as of and for the year ended December 31, 2014, as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

The management of the Lyon County Water District is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Accounting principles generally accepted in the United States of America require that management discussion and analysis on page 2 through page 4 be presented to supplement the basic financial statements. Such 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information has been compiled by us without audit or review and accordingly, we do not express an opinion or provide any assurance on it.

We are not independent with respect to the Lyon County Water District.

Thurman Campbell Group, PLC

January 31, 2015
Princeton, KY 42445

LYON COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

The Lyon County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2014. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

The District's operating revenues increased by \$33,121, from \$915,648 to \$948,769 during the prior year.

The District's total net position decreased by \$84,507 during the year compared to a \$72,536 decrease in the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

Lyon County Water District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net position. The statement of net position (formerly the Statement of Net Assets) presents the financial position of the District. It presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Statement of revenues, expenses and changes in net position. The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District financial statements. The notes to the financial statements can be found on pages 8-16 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$3,601,090 at December 31, 2014.

The District's overall financial position and operations for the past two years are summarized as follows, based on the information included in the financial statements.

	2014		2013
Current & other assets	\$ 410,158		\$ 443,558
Capital Assets	4,828,319		4,872,929
Restricted Assets	201,828		260,640
	5,440,305		5,577,127
Long-term liabilities	1,312,310		1,371,744
Other liabilities	526,905		519,786
	1,839,215		1,891,530
Net position:			
Net investment in capital assets	3,301,632		3,176,410
Restricted	201,828		260,640
Unrestricted	97,630		248,547
Total net position	\$ 3,601,090		\$ 3,685,597
	2014		2013
Revenues:			
Water & sewer sales	\$ 948,769		\$ 915,648
Expenses:			
Operating expenses	1,013,266		953,457
Operating income	(64,497)		(37,809)
Non-operating income	1,344		3,436
Non-operating expenses	(55,439)		(109,788)
Change in net position before capital contributions	(118,592)		(144,161)
Contributed Capital	34,085		71,625
Change in net position	(84,507)		(72,536)
Net position	3,685,597		3,758,133
Net position, end of year	\$ 3,601,090		\$ 3,685,597

A portion of the District's net position (\$3,301,632) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities. See Notes 3 and 4 in the Notes to Financial Statements.

CAPITAL ASSETS

The District's investment in capital assets (net of accumulated depreciation) as of December 31, 2014 was \$4,828,319. The table below gives a brief description of capital assets of the District:

Assets not being depreciated:	
Land	\$ 121,772
Construction in Progress	403,312
Assets being depreciated:	
Equipment	93,400
Distribution lines	3,471,801
Water Tanks	119,672
Building	39,470
Transportation	11,325
Sewer Lines	567,567
Total Assets	<u>\$ 4,828,319</u>

For the year ending December 31, 2014, the District purchased additional capital asset including \$172,550 in line construction engineering fees and \$1,315 for computer equipment. For additional information on the District's capital assets see Note 3 Capital Assets.

LONG-TERM DEBT

The District's long-term debt at December 31, 2014 was \$1,267,490. The table below gives a brief description of long-term debt of the District:

Long Term Debt:	
KY Association of Counties	8,000
KY Rural Water	1,235,000
Capital Lease	24,490
Total Long Term Debt	<u>\$ 1,267,490</u>

For additional information on the District's long-term debt see Note 4 Capital Lease and Note 5 Long-Term Debt.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Lyon County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Don Robertson, Chairman, Lyon County Water District, 5464 US 62W, Kuttawa, Kentucky 42055.

LYON COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2014

ASSETS	2014
Current assets:	
Cash	\$ 261,241
Accounts receivable:	
Trade	109,026
Inventory	30,914
Prepaid expenses	8,417
Total current assets	409,598
Non-current assets:	
Restricted assets:	
Cash	201,828
Capital assets:	
Capital assets (not being depreciated)	525,084
Capital assets (net of accumulated depreciation)	4,303,235
Total capital assets	4,828,319
Other assets:	
Deposits	560
Total other assets	560
Total non-current assets	5,030,707
Total assets	5,440,305
 LIABILITIES	
Current liabilities:	
Current maturities of long-term debt	57,712
Interim Financing	156,665
Accounts payable:	
Trade	48,575
Construction	218,678
Withholdings and related	6,473
Customer's deposit	16,400
Accrued expenses:	
Taxes	2,257
Interest	20,145
Total current liabilities	526,905
Non-current liabilities:	
Long-term debt, less current maturities	1,267,490
Unamortized premium on debt	44,820
Total non-current liabilities	1,312,310
Total liabilities	1,839,215
 NET POSTION	
Net investment in capital assets	3,301,632
Restricted	201,828
Unrestricted	97,630
Total net position	\$ 3,601,090

LYON COUNTY WATER DISTRICT
STATEMENT OF REVENUES , EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2014

	2014
Operating Revenues:	
Water and Sewer sales, net of refunds	\$ 948,769
Total operating revenues	948,769
Operating Expenses	
Water Expenses	766,133
Wastewater Expenses	26,870
Taxes	1,787
Deprecation	218,476
Total operating expenses	1,013,266
Operating income (loss)	(64,497)
Nonoperating Revenues (Expenses)	
Interest income	184
Miscellaneous receipts	1,160
Interest expense	(55,439)
Total non-operating expenses	(54,095)
Income (loss) before contributions	(118,592)
Capital Contributions	
Tap-on fees	16,150
Construction grants	17,935
Total capital contributions	34,085
Change in net position	(84,507)
Net Position, beginning of year	3,685,597
Net Position, end of year	\$ 3,601,090

LYON COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
Year Ended December 31, 2014

	2014
Cash flows from operating activities:	
Received from customers	\$ 948,384
Paid to suppliers for goods and services	(444,338)
Paid to employees	(200,599)
Net cash provided (used) by operating activities	303,447
Cash flows from non-capital financing activities:	
Miscellaneous receipts	1,160
Net cash provided (used) by non-capital financing activities	1,160
Cash flows from capital and related financing activities:	
Contributed capital, net	34,085
Acquisition and construction of property, plant and equipment	(173,865)
Prepaid Kentucky Infrastructure principal	145,728
Principal paid on long-term debt	(216,376)
Interest paid on debt	(55,439)
Net cash provided (used) by capital and related financing activities	(265,867)
Cash flows from investing activities:	
Interest income	184
Net cash provided (used) by investing activities	184
Net increase (decrease) in cash	38,924
Cash and cash equivalents, beginning of year	424,145
Cash and cash equivalents, end of year	\$ 463,069
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Cash flows from operating activities:	
Operating (loss) income	\$ (64,497)
Adjustments - operating activities:	
Depreciation	218,476
(Increase) decrease in:	
Accounts receivable	1,065
Inventory	(15,700)
Prepaid expenses	44
Increase (decrease) in:	
Accounts payable	167,662
Customer's deposits	(1,450)
Withholdings and related	2,249
Accrued interest	(4,431)
Accrued taxes	29
Net cash provided (used) by operating activities	\$ 303,447

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity - The Lyon County Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Kuttawa, Kentucky and primarily serves the Lyon County, Kentucky area.

Principles determining scope of reporting entity - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of accounting - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District applies all Government Accounting Standards Board (GASB) pronouncements. Enterprise 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When the Utility incurs an expense for which both restricted and unrestricted resources may be used, it is the Utility's policy to use restricted resources first, then unrestricted resources.

Accounts receivable - The direct write-off method was used for recording un-collectible accounts. No allowance for un-collectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Lyon County.

Materials and supplies - Inventories consist of materials and supplies and are stated at cost. Cost is determined by the first-in, first-out method.

Capital assets - Capital assets are stated at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following estimated useful lives:

Buildings	20-40 years
Equipment	5-10 years
Water and Sewer Lines	25-40 years

The District does not have a capitalization policy.

Taxes on income - The Lyon County Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates - The preparation of financial statements in conformity with regulatory accounting principles 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.

Cash and cash equivalents – For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Revenue recognition-Revenues are recognized when earned and expenses are recognized when incurred. The District customers are billed monthly. Unbilled utility service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$44,951 at December 31, 2014.

2 CASH

Separate and special bank accounts were established by the Water Revenue Bonds - Series of 1995 bond ordinance dated October 3, 1995 and retained by the Water Revenue Bonds – Series of 2002 bond ordinance.

Revenue fund - All income and revenues derived from the operation of the system shall be deposited promptly and as received to the Lyon County Water District Water Revenue Fund. The monies deposited into the Revenue Fund shall be expended only in the manner and order as follows:

- (1) Lyon County Water Revenue Bond and Interest Sinking Fund of 1995
- (2) Depreciation Reserve Fund
- (3) Lyon County Loan Fund
- (4) Operation and Maintenance Fund.

Lyon County Water Revenue Bond and Interest Sinking Fund - The sinking fund was established for the purpose of paying the principal and interest on the Rural Water Bonds . The ordinance requires that the amount deposited each month to transfer to the Regions Sinking Fund. At December 31, 2014 the balance of the Sinking Fund was \$27,384.

Regions Sinking Funds- The sinking fund was established for the purpose of paying the principal and interest on the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds Series 2013 C . The ordinance requires that the amount deposited each month equals one-sixth of the next succeeding interest requirement of the next succeeding interest due date and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2014 the balance of the Sinking Fund was \$61,078.

Depreciation Reserve - The ordinances requires Lyon County Water District to make monthly contributions to this fund after observing the priority of deposits into the KIA Loan Fund and the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the 1995 ordinance the District is to make \$510 monthly deposits until a required minimum balance of \$61,200 is met. Under the 2002 ordinance the District is to make \$295 monthly deposits over the life of the loan, at refinance the requirement it is it reasonable and maintained at the same level before the refunding. At December 31, 2014 the balance of the Depreciation Reserve Fund was \$106,126.

Lyon County Loan Fund - This account shall be maintained and monthly transfers shall be made from the revenue fund in amounts sufficient to amortize the county loan. At December 31, 2014 the balance of the Lyon County Loan Fund was \$7,240.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

2 CASH (Continued)

Operations and Maintenance Fund - Transfers shall be made monthly from the Revenue Fund to the Operations and Maintenance Fund so that the various operation and maintenance expenses of such system are met and a two (2) month operating reserve established and maintained. Any funds remaining in such Operation and Maintenance Fund after meeting the expenses of operating such system shall be transferred to the Revenue Fund and disbursed in accordance with the above provisions until such time as the Sinking Fund and Depreciation Fund are current and the required balances established; and then excess funds may be invested in direct obligations of or obligations which are fully guaranteed by the United State Government with such maturities so that moneys shall be available in the respective Funds for the purposes for which same are established.

Deposits - As of December 31, 2014, the carrying amount of the District's deposits was \$463,069 and the bank balance was \$465,585. Of these amounts \$371,416 was covered by federal depository insurance, \$80,514 of the bank balance was collateralized by securities held by the pledging financial institutions, and \$13,655 was uncollateralized and uninsured.

Insured by FDIC	\$ 371,416
Uninsured and collecteralized with securities held by Branch Banking & Trust	80,514
Uninsured and uncollecteralized	13,655
Total	<u>\$ 465,585</u>

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

3 CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014:

	Balance January 1, 2014	Additions	Reduction	Balance December 31, 2014
Assets being depreciated:				
Equipment	\$ 194,304	\$ 1,315	\$ (1,257)	\$ 194,362
Distribution lines	6,301,407	386,519	-	6,687,926
Water Tanks	422,707	-	-	422,707
Building	73,976	-	-	73,976
Transportation	54,129	-	-	54,129
Sewer Lines	665,611	-	-	665,611
Total Depreciable assets	<u>7,712,134</u>	<u>387,834</u>	<u>(1,257)</u>	<u>8,098,711</u>
Accumulated Deprecation:				
Equipment	(88,665)	(13,554)	1,257	(100,962)
Distribution lines	(3,054,700)	(161,425)	-	(3,216,125)
Water Tanks	(288,571)	(14,464)	-	(303,035)
Building	(32,439)	(2,067)	-	(34,506)
Transportation	(37,532)	(5,272)	-	(42,804)
Sewer Lines	(76,351)	(21,693)	-	(98,044)
Total Accumulated Deprecation	<u>(3,578,258)</u>	<u>(218,475)</u>	<u>1,257</u>	<u>(3,795,476)</u>
Assets not being depreciated:				
Land	121,772	-	-	121,772
Construction in Progress	617,281	172,550	(386,519)	403,312
Total Non-depreciable assets	<u>739,053</u>	<u>172,550</u>	<u>(386,519)</u>	<u>525,084</u>
Total buisness-type capital assets	<u>\$ 4,872,929</u>	<u>\$ 341,909</u>	<u>\$ (386,519)</u>	<u>\$ 4,828,319</u>

Depreciation charged to income was \$218,475.

4 CAPITAL LEASES

In fiscal year 2012, the District entered into a capitalized lease for a backhoe. This lease agreement met the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Amortization of backhoe under capital assets is included as depreciation expense.

Capital assets consisting of a Case backhoe have been capitalized in the amount of \$72,490. This amount represents the present value of the minimum lease payments at the time of acquisition. The accumulated depreciation as of December 31, 2014 for this equipment was \$18,122, leaving a current book value of \$54,368. A corresponding liability is recorded in the financial statements. Principal payments in fiscal year 2014 totaled \$14,153.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

4 CAPITAL LEASES (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2014:

	Principal	Interest	Total
2015	14,712	1,260	15,972
2016	15,292	679	15,971
2017	9,197	119	9,316
	\$ 39,201	\$ 2,058	41,259
Less: Interest			2,058
Present Value of Minimum Lease Payments			\$ 39,201

5 LONG-TERM DEBT

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

Note payable to Kentucky Association of Counties Leasing Trust, bearing interest at 4.45 percent, due January 1, 2016. Common principal due annually January 1.	\$	16,000
Kentucky Rural Water Revenue Bonds Series 2013 C bearing interest at 3.50 percent due January 1, 2040. Interest due semi-annually on January 1 and July 1 and Principal due annually on January 1, net of unamortized premium of \$44,820.		1,314,820
		1,330,820
Less Current Portion		43,000
	\$	1,287,820

The schedule of principal maturity and annual debt service for the District is as follows:

	Amortization of			
	Principal	Premiums	Total	Interest
2015	\$ 43,000	\$ 1,724	\$ 44,724	\$ 48,215
2016	48,000	1,724	49,724	46,567
2017	40,000	1,724	41,724	45,013
2018	40,000	1,724	41,724	43,293
2019	45,000	1,724	46,724	41,465
2020-2024	240,000	8,619	248,619	176,833
2025-2029	295,000	8,619	303,619	122,881
2030-2034	345,000	8,619	353,619	67,919
2035-2039	165,000	8,619	173,619	16,542
2040	25,000	1,724	26,724	491
	\$ 1,286,000	\$ 44,820	\$ 1,330,820	\$ 609,219

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

5 LONG-TERM DEBT (continued)

In an ordinance of the Board of Commissioners, adopted on October 3, 1995, the District authorized and thereafter issued its \$996,000 "Water Revenue Bonds, Series 1995" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

In an ordinance of the Board of Commission, adopted on September 13, 2002, the District authorized and thereafter issued its \$594,000 "Water Revenue Bonds, Series 2002" for the purpose of providing funds for the installation of major extensions and additions to the system. All bonds of this issue maturing on or after January 1, 1999 shall be subject to redemption or prepayment at the option of the District prior to maturity in whole, or from time to time, in part, in the inverse order at par plus accrued interest provided that Rural Economic Development is holder of the bonds.

Both bonds were refinanced under Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds Series 2013 C as of March 27, 2013.

The Series 2013 C bond referred to above mature as to principal in installments on January 1, in each of the years and shall bear interest from their issue dates until payment of principal. Interest is payable semiannually on June 1 and January 1, of each year as established by the ordinance.

All the Revenue Bonds are payable solely from, and secured by, a first pledge of the water revenues. So long as any of the bonds are outstanding and unpaid, the District shall continuously be maintained and operated in good condition. Rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times, to provide for the payment of the operation and maintenance of the water plant, and to maintain the Depreciation and Sinking Funds described in Note 2.

If there is any default in the payment of the principal or interest on any of the outstanding bonds, and suit is filed by a holder of said bond, and court-having jurisdiction may appoint a receiver to administer the District with the power to charge and collect rates. These collected rates shall be sufficient to provide for the payment of the outstanding bonds, and the operating and maintenance expenses. The income and revenues shall be in conformity with the bond resolution, and the provisions of the applicable laws of Kentucky.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable. The District must maintain adequate public liability insurance including fire, windstorm, fidelity bonds, and the hazards covered by a standard extended coverage policy. The bond covenant also requires an audit of the books of record and account pertinent to the system of the District within 60 days of year-end. The audit requirement was not met for the year ended December 31, 2014.

See Note 4 for detail on the District's capital lease obligation. Principal and interest payments are due monthly.

**LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

5 LONG-TERM DEBT (continued)

A summary of changes in long-term debt is as follows:

	Balance January 1, 2014	Additions	Debt Payments	Balance December 31, 2014	Less current portion	Long-term debt December 31, 2014
KIA Infrastructure	\$ 157,500	\$ -	\$ 157,500	\$ -	\$ -	\$ -
KY Associations of Counties	24,000	-	8,000	16,000	8,000	8,000
Ky Rural Water-2013	1,305,000	-	35,000	1,270,000	35,000	1,235,000
Premium on Debt	46,543	-	1,723	44,820	-	44,820
	<u>\$ 1,533,043</u>	<u>\$ -</u>	<u>\$ 202,223</u>	<u>\$ 1,330,820</u>	<u>\$ 43,000</u>	<u>\$ 1,287,820</u>

Interest Expense for the year was \$55,439 which was all interest incurred. No interest was capitalized during 2014.

6 CONTRACTS FOR WATER SUPPLY

The District entered into contracts with the City of Eddyville, the City of Kuttawa, the City of Princeton, Kentucky, and the Crittenden-Livingston Water District which states that the Cities and Water District will provide water to the District.

7 COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

8 CONTINGENCIES

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2014, there have been no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from grant funds are recognized and are recorded as revenue.

9 RETIREMENT PLAN

Plan Description- The District is a participant in the County Employees' Retirement System (CERS), a cost sharing, multi-employer public employee retirement system. CERS provides 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. Under the provision of Kentucky Revised Statute 61.645, the Board of trustees of Kentucky Retirement Systems administers the CERS. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 564-4646.

Funding Policy- Nonhazardous position employees are required to contribute 5% of their creditable compensation by State statute. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed to a health insurance account. The District is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. For the years ended June 30, 2014, 2013 and 2012, the District contributed 18.89%, 19.55%, and 18.96%, respectively, of each nonhazardous employee's creditable compensation. These actuarially determined rates are set by the Board of Trustees of Kentucky Retirement Systems.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

9 RETIREMENT PLAN (continued)

Schedule of Employer Contributions-

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
December 31, 2014	\$ 24,080	\$ 24,080	100%
December 31, 2013	23,312	23,312	100%
December 31, 2012	24,542	24,542	100%

Postretirement Healthcare Benefits- In addition to the pension benefits described above, the Kentucky Retirement System (KRS) provides postretirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees' Retirement System (KERS), the County Employees' Retirement System (CERS), and the State Police Retirement System (SPRS). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund.

For members participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

<u>Service Period</u>	<u>% Paid by Insurance Fund</u>
20 or more years	100%
15-19 years	75%
10-14 years	50%
4-9 years	25%
Less than 4 years	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participation, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, nonhazardous employees whose participation began on, or after, July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees who participation began on, or after, July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within 20 years. The increases commenced with the 1997 valuation used by the Kentucky General Assembly to establish employer contribution rates for the biennium.

LYON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

11 SHORT-TERM DEBT

The District entered into a short term interim financing with Kentucky Infrastructure Authority in 2013 to pay engineering cost associated with a system upgrade that is not fully complete as of December 31, 2014.

	Balance January 1, 2014	Additions	Debt Payments	Balance December 31, 2014
KIA Interium Financing	\$ 156,665	\$ -	\$ -	\$ 156,665
	\$ 156,665	\$ -	\$ -	\$ 156,665

13 CONCENTRATION OF CREDIT RISK

The District provides water service to the citizens of Lyon County, Kentucky. It extends credit to all of these customers.

14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2015, the date which the financial statements were available to be issued. A system upgrade through Rural Development and Kentucky Infrastructure Authority has been approved. Estimated grant funding for the project is \$550,000.