CHRISTIAN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2014 AND 2013

CHRISTIAN COUNTY WATER DISTRICT

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
Statements of Net Position	15
Statements of Revenues, Expenses and Changes in Net Position	17
Statements of Cash Flows	19
Notes to Financial Statements	21
FINANCIAL STATEMENT, REPORTS AND SCHEDULES REQUIRED BY *GOVERNMENT AUDITING STANDARDS*	
Schedule of Expenditures of Federal Awards	35
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*	36
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	38
Schedule of Findings and Questioned Costs	40
Summary Schedule of Prior Year Audit Findings	42

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INDEPENDENT AUDITORS' REPORT

Commissioners
Christian County Water District
Hopkinsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Christian County Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise 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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 Christian County Water District as of December 31, 2014 and 2013, and the results of its operations 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through14 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 for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Christian County Water District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015, on our consideration of Christian County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Christian County Water District's internal control over financial reporting and compliance.

KEM, DUGUID & ASSOCIATES, P.S.C.

Kem, Duguid & Associates, P.S.C.

Certified Public Accountants
Hopkinsville, Kentucky

March 25, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The management of Christian County Water 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 net position increased by $121,779 or 1.25% from $9,760,826 at December 31, 2013 when compared to $9,882,605 at December 31, 2014.
- Operating revenues increased by $197,684 or 6.32% from $3,126,743 to $3,324,427 when compared to the previous year.
- Operating expenses increased by $99,986 or 4.35% from $2,298,491 to $2,398,477 when compared to the previous year.

OVERVIEW OF THE FINANCIAL STATMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: (1) basic financial statements and (2) notes to basic financial statements. The basic financial statements and notes to these statements reflect the accounts and activities of the District.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information utilizing the full accrual basis of accounting. This method of accounting recognizes revenues when earned instead of when received and recognizes expenses when incurred rather than when paid. The financial statements conform to accounting principles which are generally accepted in the United States of America.

Statement of Net Position

The Statement of Net Position includes information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and 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

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses and Changes in Net Position presents the results of the District's operations over the course of the operating cycle. This statement can be used to determine whether the District has successfully recovered all of its actual costs including depreciation through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the time of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and delayed payment of current year expenses.

Statement of Cash Flows

The Statement of Cash Flows provides information on the District's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the operating cycle.

Financial Analysis of the Year Ended December 31, 2014

Over the past year, total assets of the District decreased by $277,703 while total liabilities decreased by $399,482. And, for the current period, the operating income of the District totaled $346,776.

Condensed Statements of Net Position

The Statement of Net Position, shown in tabular format below, represents information on all of the District's assets and liabilities with the difference between the two reported as net position. The District's total net position increased from the prior year by $121,779 or 1.25%.

Our analysis that follows focuses on the District's net position (shown in Table 1) and the changes in components of net position (shown in Table 2) during the year.

TABLE 1
CONDENSED STATEMENTS OF NET POSITION

	2014	2013	Change in FY 2013 to FY 2014 Amount	Percent
Current and other assets	$ 4,108,246	$ 3,880,904	$ 227,342	5.86%
Capital assets, net	15,513,207	15,959,866	(446,659)	-2.80%
Total assets	19,621,453	19,840,770	(219,317)	-1.11%
Long-term debt	9,265,354	9,667,754	(402,400)	-4.16%
Current and other liabilities	407,459	412,190	(4,731)	-1.15%
Total liabilities	9,672,813	10,079,944	(407,131)	-4.04%
Net investment in capital assets	6,247,853	6,292,112	(44,259)	-0.70%
Restricted	2,914,231	2,696,958	217,273	8.06%
Unrestricted	786,556	771,756	14,800	1.92%
Total net position	$ 9,948,640	$ 9,760,826	$ 187,814	1.92%

Analysis of Net Position

To better understand the District's actual financial positions and its ability to deliver services in future periods, the reader will need to review the various components of the net position category and obtain an understanding of how each related specifically to the business activities that we perform. For example, $6,243,777 or 63.18% of net position represents investment in plant assets which is the lifeblood to the provision of water services. Another portion of net position, $2,914,231 or 29.49% represents funds set aside for payment of debt, refunding of customer deposits, and capital purchases.

TABLE 2
Components of Net Position

	2014	2013	Change in FY 2013 to FY 2014 Amount	Percent
Net investment in capital assets	$ 6,247,853	$ 6,292,112	$ (44,259)	-0.70%
Restricted for customers' deposits	49,604	51,495	(1,891)	-3.67%
Restricted for debt service	981,222	926,841	54,381	5.87%
Restricted for capital projects	1,883,405	1,718,622	164,783	9.59%
Unrestricted	786,556	771,756	14,800	1.92%
	$ 9,948,640	$ 9,760,826	$ 187,814	1.92%

For the year ended December 31, 2014, *Net Position Invested in Capital Assets, Net of Related Debt* decreased by $48,335 or .77% compared to the previous year. The amount of this category is calculated by taking the depreciated value of our capital assets and subtracting the associated bond debt. This decrease is primarily due to the payment of $401,500 in principal payments on the bonds of the District and purchases and construction of property and equipment of $132,515 offset by additions to accumulated depreciation of $579,174 and amortization of bond discounts and premiums of $3,176.

In comparing the total amount to the prior year's balance of *Net Position Restricted for Debt Service*, there was an increase of $54,831 or 5.87%. Net Position Restricted for Capital Projects increased $164,783 or 9.59%.

Compared to the previous year's balance, there was a decrease in *Unrestricted Net Position* of $47,159 or 6.11%.

Unrestricted net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Analysis of Current Assets

The textbook definition of "current assets" is balance sheet items which equal the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expense, and other assets that could be converted to cash in less than one year. Current assets are important to any financial analysis because it is from current assets that a business funds its ongoing, day-to-day operations. A comparison of the December 31, 2014 and 2013 balances by asset classification is shown in the table below.

TABLE 3
Comparison of Current Assets

	2014	2013	Change in FY 2013 to FY 2014 Amount	Percent
Cash and cash equivalents	$ 239,517	$ 234,246	$ 5,271	2.25%
Accounts receivable and unbilled revenues	698,006	664,287	33,719	5.08%
Allowance for uncollectible accounts	(159,563)	(176,320)	16,757	-9.50%
Inventory	214,261	250,505	(36,244)	-14.47%
Prepaid expenses	18,969	18,527	442	2.39%
	$ 1,011,190	$ 991,245	$ 19,945	2.01%

Analysis of Noncurrent Assets

Noncurrent assets represent assets that are not reasonably expected to be realized in cash or sold or consumed during the next fiscal year. When making the distinction between whether an asset should be considered current or noncurrent, liquidity or nearness to cash is not the proper basis for determining the classification. In making this determination, any encumbrances on the use of the asset must be considered. Thus, cash investments intended for liquidation or liabilities due beyond the one-year period are noncurrent assets, as would assets segregated or restricted for the liquidation of long-term debts (including amounts due within the next operating cycle). Assets designated to be used to acquire, construct, or improve capital assets would also be noncurrent. In the following table, the Noncurrent Assets of the District at December 31, 2014 and 2013 are compared to major classification. As indicated by the tabular information below, total noncurrent assets increased by $217,273 or 8.06% compared to the previous year.

TABLE 4
Comparison of Noncurrent Assets

	2014	2013	Change in FY 2013 to FY 2014 Amount	Percent
Cash - customers' deposits	$ 49,604	$ 51,495	$ (1,891)	-3.67%
Cash - bond and interest redemption	651,942	601,768	50,174	8.34%
Cash - depreciation reserve	1,141,030	1,045,793	95,237	9.11%
Cash - bond reserve	329,280	325,073	4,207	1.29%
Investments - depreciation reserve	742,375	672,829	69,546	10.34%
	$ 2,914,231	$ 2,696,958	$ 217,273	8.06%

Analysis of Liabilities

In financial accounting, the term "liability" is defined as an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. To put it in more simplistic terms, this section analyzes the various claims that creditors have against the District's assets.

TABLE 5
Comparison of Current Liabilities from Unrestricted Net Position

	2014	2013	Change in FY 2013 to FY 2014 Amount	Percent
Accounts payable and accrued expenses	$ 158,305	$ 154,920	$ 3,385	2.18%
Accrued wages	6,035	3,559	2,476	69.57%
	$ 164,340	$ 158,479	$ 5,861	3.70%

Current Liabilities Payable from Unrestricted Assets held steady when compared to the previous year's balance.

Condensed Statements of Revenues, Expenses and Changes in Net Position

As indicated in Table 6, the change in net position for the fiscal year ended June 30, 2014 was $121,779.

TABLE 6
CONDENSED STATEMENTS OF REVENUES, EXPENSES and CHANGES IN NET POSITION

	2014	2013	Change in FY 2013 to FY 2014 Amount	Percent
Operating revenues	$ 3,387,245	$ 3,126,743	$ 260,502	8.33%
Non-operating revenues	64,028	42,184	21,844	51.78%
Total revenues	3,451,273	3,168,927	282,346	8.91%
Depreciation expense	579,174	570,434	8,740	1.53%
Operating expenses	2,398,477	2,298,491	99,986	4.35%
Non-operating expenses	368,146	511,461	(143,315)	-28.02%
Total expenses	3,345,797	3,380,386	(34,589)	-1.02%
Income (loss) before grants and capital contributions	105,476	(211,459)	316,935	-149.88%
Grants and capital contributions	82,338	41,762	40,576	97.16%
Changes in net position	187,814	(169,697)	357,511	-210.68%
Beginning net position	9,760,826	9,930,523	(169,697)	-1.71%
Ending net position	$ 9,948,640	$ 9,760,826	$ 187,814	1.92%

Analysis of Revenue

For the 2014 fiscal year, the *Operating Revenues* of the system were $3,324,427. This amount represented an increase of $197,684 or 6.32 percent compared with the previous year's total.

In analyzing the increase in revenue for the year, the primary factor contributing to the increase is the unusually dry summer season of 2014 compared to the unusually wet summer season of 2013. Included in *Non-Operating Revenues* are interest income and unrealized gain on investments totaling $63,863.

Analysis of Expenses

The Total *Operating Expenses* for FY 2014 were $2,977,651. The amount represents an increase of $108,726 or 3.79% more than the prior fiscal year of $2,868,925. The major categories of *Operating Expenses* are shown in the chart below.

TABLE 7
Comparison of Operating Expenses

	2014	2013	Change in FY 2013 to FY 2014 Amount	Percent
Water purchased	$ 1,148,858	$ 1,041,561	$ 107,297	10.30%
Depreciation	579,174	570,434	8,740	1.53%
Salaries	544,639	541,742	2,897	0.53%
Maintenance and repairs	59,915	72,086	(12,171)	-16.88%
Insurance	172,334	178,867	(6,533)	-3.65%
Rental expense	578	6,438	(5,860)	-91.02%
Electricity for pumping	79,000	68,816	10,184	14.80%
Professional services	34,088	33,296	792	2.38%
Office supplies and expense	129,197	129,214	(17)	-0.01%
Operating materials and supplies	45,853	43,819	2,034	4.64%
Payroll taxes and fringe benefits	130,887	139,934	(9,047)	-6.47%
Transportation expenses	53,128	42,718	10,410	24.37%
	$ 2,977,651	$ 2,868,925	$ 108,726	3.79%

As indicated by the comparative information presented above, water purchases increased by $107,297 or 10.30% compared to the prior year. This is due to the increase in water sales related to the unusually dry summer season of 2014 compared to the unusually wet summer season of 2013.

Capital Assets

Christian County Water District's investment in capital assets as of December 31, 2014 was $15,513,207 (net of accumulated depreciation), as shown in the following table.

TABLE 8
CAPITAL ASSETS

	2014	2013
Capital assets not depreciated:		
Land and land rights	$ 118,491	$ 118,491
Construction in progress	12,066	24,304
Total nondepreciable historical cost	130,557	142,795
Capital assets depreciated:		
Structures and improvements	921,470	921,470
Supply mains	33,672	33,672
Pumping equipment	926,702	925,093
Treatment equipment	10,700	10,700
Reservoirs	3,033,988	3,033,988
Transmission mains	15,488,815	15,413,016
Services	247,664	247,664
Meters	1,126,613	1,091,113
Hydrants	822,439	822,439
Office equipment	149,645	149,645
Vehicles	247,984	247,984
Tools and miscellaneous	423,231	391,386
Total depreciable historical cost	23,432,923	23,288,170
Total capital assets	23,563,480	23,430,965
Less accumulated depreciation	(8,050,273)	(7,471,099)
Total capital assets, net	$ 15,513,207	$ 15,959,866

As of December 31, 2014, the District's investment in net capital assets totaled $15,513,207 which is a decrease of $446,659 over the net capital asset balance at December 31, 2013. Capital assets had additions of $132,515 offset by additions to accumulated depreciation of $579,174.

Long-term Debt

As of December 31, 2014, the District had $9,269,430 (net of premium and discounts) in outstanding debt compared to $9,667,754 as of December 31, 2013. Long-term debt activity consisted of a reduction of principal of $401,500.

Additional information on the District's long-term debt is provided in Note 5 of the financial statements.

ECONOMIC FACTORS AND RATES

Management and the District Commissioners review the District's water rates annually. We expect our rates to remain unchanged for the next year. Hopkinsville Water Environment Authority has passed on all the rate increases they should pass on for the next three years. We currently do not plan to borrow money for any major expansion project during the upcoming year and will continue to add short lines to meet the short term needs of the District while doing line replacement on troublesome sections as needed to control cost and water loss. There are no anticipated or planned increases.

An early and dry summer should boost water sales to stabilize revenue needs and allow for a slight financial cushion going into winter which should start 2015 off with a positive cash flow, offsetting any inflationary pressures. Also, with the frigid temperatures this winter, customers left faucets running and increased our sales some in the month of February 2014. There were also a number of leaks requiring adjustments.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Christian County Water District's General Manager at 1940 Dawson Springs Road, Hopkinsville, KY 42240.

FINANCIAL STATEMENTS

CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	$ 239,517	$ 234,246
Accounts receivable and unbilled revenues	698,006	664,287
Allowance for uncollectible accounts	(159,563)	(176,320)
Inventory	214,261	250,505
Prepaid expenses	18,969	18,527
Total current assets	1,011,190	991,245
Restricted assets:		
Cash - customers' deposits	49,604	51,495
Cash - bond and interest redemption account	651,942	601,768
Cash - depreciation reserve account	1,141,030	1,045,793
Cash - bond reserve account	329,280	325,073
Investments - depreciation reserve	742,375	672,829
Total restricted assets	2,914,231	2,696,958
Capital assets not being depreciated:		
Land and land rights	118,491	118,491
Construction in progress	12,066	24,304
Capital assets being depreciated:		
Water supply and distribution system	15,382,650	15,817,071
Total capital assets	15,513,207	15,959,866
Other assets:		
Deposits	115	115
Deferred charges:		
Unamortized bond issuance costs	182,710	192,586
Total assets	$ 19,621,453	$ 19,840,770

See accompanying notes to financial statements

CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION, continued
DECEMBER 31, 2014 AND 2013

LIABILITIES	2014	2013
Current liabilities:		
Accounts payable and accrued expenses	$ 158,305	$ 154,920
Accrued wages	6,035	3,559
Total current liabilities	164,340	158,479
Current liabilities payable from restricted assets:		
Customers' deposits	49,604	51,495
Interest payable	175,669	180,623
Notes payable - current	6,000	6,000
Long-term debt - current portion	383,500	395,500
Total payable from restricted assets	614,773	633,618
Noncurrent liabilities:		
Long-term debt (net of unamortized discounts and premiums)	8,525,854	8,910,254
Notes payable	350,000	356,000
Compensated absences	17,846	21,593
Total noncurrent liabilities	8,893,700	9,287,847
Total liabilities	9,672,813	10,079,944
NET POSITION		
Net investment in capital assets	6,247,853	6,292,112
Restricted for customers' deposits	49,604	51,495
Restricted for debt service	981,222	926,841
Restricted for capital projects	1,883,405	1,718,622
Unrestricted	786,556	771,756
Total net position	$ 9,948,640	$ 9,760,826

See accompanying notes to financial statements

CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Operating revenues:		
Water sales	$ 3,287,993	$ 3,021,956
Other revenues	99,252	104,787
	3,387,245	3,126,743
Operating expenses:		
Water purchased	1,148,858	1,041,561
Depreciation	579,174	570,434
Salaries	544,639	541,742
Maintenance and repairs	59,915	72,086
Insurance	172,334	178,867
Rental expense	578	6,438
Electricity for pumping	79,000	68,816
Professional services	34,088	33,296
Office supplies and expense	129,197	129,214
Operating materials and supplies	45,853	43,819
Payroll taxes and fringe benefits	130,887	139,934
Transportation expenses	53,128	42,718
	2,977,651	2,868,925
Operating income	409,594	257,818
Nonoperating revenue (expense):		
Interest and dividend income	27,437	26,496
Gain (loss) on disposal of assets	-	15,688
Interest expense	(358,270)	(411,914)
Reimbursement	-	(9,886)
Amortization of bond issuance costs	(9,876)	(34,584)
Unrealized gain (loss) on investments	36,591	(55,077)
	(304,118)	(469,277)
Income (loss) before grants and capital contributions	105,476	(211,459)
Grants and capital contributions	82,338	41,762
Change in net position, carried forward	$ 187,814	$ (169,697)

See accompanying notes to financial statements

CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, continued
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Change in net position, brought forward	$ 187,814	$ (169,697)
Net position, beginning of year	9,760,826	9,930,523
Net position, end of year	$ 9,948,640	$ 9,760,826

See accompanying notes to financial statements

CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities		
Receipts from customers and users	$ 3,337,047	$ 3,156,357
Cash payments to suppliers for goods and services	(1,685,406)	(1,570,682)
Cash payments to employees	(675,434)	(694,818)
Net cash provided by operating activities	976,207	890,857
Cash flows from capital and related financing activities		
Proceeds from grants	24,480	-
Purchases and construction of property and equipment	(132,515)	(235,785)
Principal paid on debt	(401,500)	(2,038,500)
Proceeds from debt	-	1,755,000
Bond issuance costs	-	(53,200)
Premium on bond issuance	-	16,962
Tap-on fees	41,035	38,650
Contributed lines	16,823	3,112
Proceeds from disposal of capital assets	-	16,889
Loss (gain) on disposal of capital assets	-	(15,688)
Customer deposits	(1,891)	3,170
Interest expense	(361,738)	(431,982)
Reimbursements	-	(9,886)
Net cash used in capital and related financing activities	(815,306)	(951,258)
Cash flows from investing activities		
Purchase of investments	(12,600)	(17,286)
Interest income	4,697	24,276
Net cash used by investing activities	(7,903)	6,990
Net increase (decrease) in cash and cash equivalents	152,998	(53,411)
Cash at beginning of year	2,258,375	2,311,786
Cash at end of year	2,411,373	2,258,375
Less restricted cash		
Cash - customer deposits	(49,604)	(51,495)
Cash - bond and interest redemption	(651,942)	(601,768)
Cash - depreciation reserve	(1,141,030)	(1,045,793)
Cash - bond reserve	(329,280)	(325,073)
Total restricted cash	(2,171,856)	(2,024,129)
Cash and cash equivalents per statement of net position	$ 239,517	$ 234,246

See accompanying notes to financial statements

CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS, continued
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities		
Operating income	$ 409,594	$ 257,818
Adjustment to reconcile revenue to net cash provided by operating activities:		
Depreciation	579,174	570,434
(Increase) decrease in:		
Accounts receivable and unbilled revenues	(50,476)	29,582
Inventory	36,244	39,182
Prepaid expenses	(442)	(2,236)
Increase (decrease) in:		
Accounts payable	3,385	17,986
Accrued wages	2,476	(17,142)
Compensated absences	(3,748)	(4,767)
Net cash provided by operating activities	$ 976,207	$ 890,857

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District was established to construct, operate, and maintain water service facilities, and to supply water to customers in Christian County, Kentucky. The District purchases its water supply from nearby city and water utilities. 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.

There were no potential component units of the District to be evaluated for inclusion in the financial statements in accordance with standards established by Governmental Accounting Standards Board.

The more significant accounting policies of the Christian County Water District are as follows:

Basis of Presentation and Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America.

Proprietary Fund Type

The District is intended to be self-supporting through user charges. All of its revenues, expenses, assets, and liabilities, including fixed assets and long-term debt associated with the specific activity, are accounted for within its financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principle ongoing operations such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Income Taxes

The District is exempt from federal and state income tax under Section 501 of the Internal Revenue Code as the District is an adjunct of the government of Christian County, Kentucky.

Cash and Investments

For the purpose of the statement of cash flows, the District considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. Investments are stated at fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets

Capital assets are stated at historical cost. Interest expense incurred during a construction period is capitalized. Depreciation rates based upon estimated useful lives have been applied on the straight-line method. The estimated useful lives are as follows:

Structures, mains and accessories	33 - 50 years
Equipment, office equipment, pumping equipment, hydrants and meters	5 - 20 years

Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or connection to the District's system.

Impairment of Capital Assets

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized in the years ended December 31, 2014 and 2013.

Deferred Charges

Costs related to revenue bond issues are capitalized as deferred charges and amortized over the life of the bond issue.

Inventories

Inventories are stated at cost determined by the first-in, first-out (FIFO) method.

Prepaid Expenses

Payments made that will benefit periods beyond December 31, 2014 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and the expenditure is reported in the year in which services are consumed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences

Full-time permanent employees and part-time employees with six months continuous service are granted vacation benefits in varying amounts to specified maximums depending on tenure with the District. A carryover of a maximum of eight vacation days is allowed. Sick leave accrues to full-time permanent employees to a specified maximum of 120 days. For employees with hire dates prior to January 1, 1987, accrued sick leave is paid in full to the 120 day maximum upon retirement or separation after twenty years of service. For employees with a hire date subsequent to January 1, 1987, upon retirement the employee may transfer accumulated sick leave up to 120 days to the employer for retirement credit only. The District shall purchase retirement service credit in an amount equal to the unused sick leave of said employee.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net positon includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of this type of item.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any of this type of item.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net positions are classified in the following categories:

- *Net Investment in Capital Assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

- *Restricted Net Position* – This amount is constricted by creditors, grantors, contributors, or laws or regulations of other governments.

- *Unrestricted Net Position* – This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services, producing, and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and 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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Subsequent Events

Subsequent events have been evaluated through March 25, 2015, which is the date the financial statements were available to be issued.

Implementation of Accounting Policies

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27.* 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.

NOTE 2 – CASH AND INVESTMENTS

The carrying amounts of the District's deposits with financial institutions were $2,530,844 and $2,377,395, and the bank balances were $2,473,453 and $2,386,755 as of December 31, 2014 and 2013, respectively.

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District does not have a policy regarding custodial credit risk.

2014

The District's deposits were fully collateralized for all months of the year ending December 31, 2014.

2013

The District's deposits were fully collateralized for all months of the year ending December 31, 2013.

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. 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.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. For the purpose of implementing Governmental Accounting Standards Statement 9, the District has defined cash and cash equivalents as cash, certificates of deposit, and repurchase agreements with an original maturity when purchased of three months or less.

NOTE 2 – CASH AND INVESTMENTS, continued

The District's cash and investments (unrestricted and restricted) at year-end are presented below.

	2014	2013
Cash	$ 2,410,398	$ 2,257,400
Investments	742,375	672,829
Petty cash	975	975

	Carrying Amount	Fair Value
2014		
Mortgage-backed securities	$ 614,338	$ 614,338
Money market funds	7,591	7,591
Certificates of deposit	120,446	120,446
Total investments	$ 742,375	$ 742,375
2013		
Mortgage-backed securities	$ 551,309	$ 551,309
Money market funds	1,525	1,525
Certificates of deposit	119,995	119,995
Total investments	$ 672,829	$ 672,829

NOTE 3 – CAPITAL ASSETS

The water supply and distribution system is classified at December 31, 2014 as follows:

	Balance 12/31/13	Additions	Deletions	Balance 12/31/14
Capital assets not depreciated:				
Land and land rights	$ 118,491	$ -	$ -	$ 118,491
Construction work in progress	24,304	2,867	(15,105)	12,066
Total capital assets not depreciated	142,795	2,867	(15,105)	130,557
Capital assets depreciated:				
Structures and improvements	921,470	-	-	921,470
Supply mains	33,672	-	-	33,672
Pumping equipment	925,093	1,609	-	926,702
Water treatment equipment	10,700	-	-	10,700
Distribution reservoirs	3,033,988	-	-	3,033,988
Transmission mains	15,413,016	75,799	-	15,488,815
Services	247,664	-	-	247,664
Meters	1,091,113	35,500	-	1,126,613
Hydrants	822,439	-	-	822,439
Office equipment	149,645	-	-	149,645
Vehicles	247,984	-	-	247,984
Tools and miscellaneous	391,386	31,845	-	423,231
Total capital assets depreciated	23,288,170	144,753	-	23,432,923
Less: Accumulated depreciation	(7,471,099)	(579,174)	-	(8,050,273)
Total capital assets depreciated, net	15,817,071	(434,421)	-	15,382,650
Total capital assets	$ 15,959,866	$ (431,554)	$ (15,105)	$ 15,513,207

NOTE 3 – CAPITAL ASSETS, continued

Construction in progress amounted to $12,066 and $24,304 at December 31, 2014 and 2013, respectively. The December 31, 2014 and 2013 balances are represented by the following:

	2014	2013
Road line extensions	$ 4,066	$ 16,304
Future projects research	8,000	8,000
	$ 12,066	$ 24,304

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31 were as follows:

	2014	2013
Customer accounts receivable	$ 219,733	$ 198,477
Unbilled revenues	292,924	261,515
Accounts receivable arrears	185,349	204,295
	$ 698,006	$ 664,287

NOTE 5 – LONG-TERM DEBT

1. Revenue Bonds

The District has issued bonds pledging income derived from operations to pay debt service. Revenue bonds outstanding at December 31, 2014 and 2013 are as follows:

Name/Purpose	Interest Rate	Amount 2014	Amount 2013
Kentucky Infrastructure Authority Revenue Bonds Series 1993 (refinance original system bonds), principal due in annual installments through January 1, 2021	2.50% - 5.75%	$ 150,000	$ 235,000
Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds, Series 2005C, principal due in monthly installments through January 1, 2029	4.030% - 4.530%	2,480,000	2,588,000
Waterworks Revenue Bonds Series 2008 (expansion of lines and improvements), principal due in annual installments through January 1, 2047	4.38%	1,765,500	1,788,000
Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds Series 2012C, principal due in monthly installments through January 1, 2038	2.15% - 4.15%	2,845,000	2,930,000
Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds Series 2013B, principal due in monthly installments through January 1, 2029	2.30%-3.30%	1,660,000	1,755,000
		$ 8,900,500	$ 9,296,000

NOTE 5 – LONG-TERM DEBT, continued

On February 27, 2013, Christian County Water District issued $1,755,000 Kentucky Rural Water Finance Corporation Public Projects Refunding Bonds, Series 2013B to advance refund $1,717,000 of the Kentucky Rural Water Series 2004B Bonds. As a result, Debt Service payments were reduced by $197,378 for a combined net present value benefit of 8.825% for the two bond series.

Revenue Bond debt service requirements to maturity, including $4,536,257 of interest, are as follows

Year Ending December 31	Principal	Interest	Total
2015	$ 383,500	$ 338,105	$ 721,605
2016	344,500	325,743	670,243
2017	373,000	314,803	687,803
2018	374,000	302,318	676,318
2019	363,000	292,535	655,535
2020-2024	2,028,500	1,246,834	3,275,334
2025-2029	2,341,000	833,565	3,174,565
2030-2034	1,238,000	445,754	1,683,754
2035-2039	716,000	251,474	967,474
2040-2044	373,500	140,444	513,944
2045-2048	365,500	44,682	410,182
Total	$ 8,900,500	$ 4,536,257	$ 13,436,757

Bond covenants for the District require the maintenance of a Bond Sinking Fund. Monthly deposits are to be made to this fund for payment of interest and principal of outstanding bonds, a sum equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the bonds, plus a sum equal to one-twelfth (1/12) of the principal of any bonds maturing on the next succeeding principal payment date. The District was in compliance with this requirement at December 31, 2014 and 2013.

NOTE 5 – LONG-TERM DEBT, continued

2. Other Long-term Debt

A summary of other long-term debt as of December 31, 2014 and 2013 follows:

	Interest Rate	Amount 2014	2013
USDA Rural Development advance, principal due in annual installments through 2043, secured by utility revenues	4.375%	$ 356,000	$ 362,000

Other long-term debt service requirements to maturity, including interest of $281,956, are as follows:

December 31	Principal	Interest	Total
2015	$ 6,000	$ 15,575	$ 21,575
2016	6,500	15,313	21,813
2017	6,500	15,028	21,528
2018	7,000	14,744	21,744
2019	7,500	14,438	21,938
2020-2024	41,500	67,068	108,568
2025-2029	52,500	57,869	110,369
2030-2034	65,500	45,106	110,606
2035-2039	82,000	28,219	110,219
2040-2044	81,000	8,596	89,596
	$ 356,000	$ 281,956	$ 637,956

NOTE 5 – LONG-TERM DEBT, continued

A summary of changes in long-term debt for the year ended December 31, 2014 is listed as follows:

Bonds	Balance 12/31/13	New Issues	Debt Payments and Refunds	Balance 12/31/14
Series 1993	$ 235,000	$ -	$ 85,000	$ 150,000
Series 2005C	2,588,000	-	108,000	2,480,000
Series 2008	1,788,000	-	22,500	1,765,500
Series 2012C	2,930,000	-	85,000	2,845,000
Series 2013B	1,755,000	-	95,000.00	1,660,000
	9,296,000	-	395,500	8,900,500
Other Long-Term Debt				
Rural Development advance	362,000	-	6,000	356,000
Total debt	$ 9,658,000	$ -	$ 401,500	9,256,500
Unamortized discount				(22,533)
Unamortized premiums				31,387
Total debt, net of unamortized discount and premiums				$ 9,265,354

NOTE 6 – DEFERRED CHARGES

Legal and financial advisory fees, printing costs and other expenses associated with the issuance of Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds Series 2005C, 2012C and 2013B are being amortized on the straight-line method over the term of the bonds. Amortization expense charged to non-operating expense was $7,920 and $7,399 for the years ending December 31, 2014 and 2013, respectively.

The discount associated with the Series 2005C issue is being amortized on the straight-line method over the term of the bonds. Amortization charged to interest expense was $1,486 and $1,486 for the years ending December 31, 2014 and 2013, respectively. The premiums associated with the Series 2012C and Series 2013B issues are being amortized on the straight-line method over the term of the bonds. Amortization of the premiums included in interest income was $2,388 and $2,221 for the years ending December 31, 2014 and 2013.

NOTE 7 – EMPLOYEES' RETIREMENT PLAN

The Christian County Water District participates in the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), a cost-sharing multiple employer defined benefit plan. The CERS provides retirement and disability benefits, annual cost-of-living adjustments, medical insurance and death benefits to Plan members and beneficiaries. Under the provisions of the Kentucky Revised Statutes Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS and has the ability to establish and amend benefit provisions. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Funding Policy: CERS plan members who began participating before September 1, 2008 are required to contribute 5% of their covered salary. Members who began participating on or after September 1, 2008 are required to contribute 6% of their covered salary. The District is required to contribute to the CERS at an actuarially determined rate. The rate for CERS was 18.89% of annual covered payroll from January 1, 2014 to June 30, 2014 and 17.67% of annual covered payroll from July 1, 2014 to December 31, 2014. The District's contributions to CERS for the years ending December 31, 2014, 2013 and 2012 were $88,766, $96,963, and $91,848, respectively, equal to the required contributions for each year.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 61.702 requires CERS to provide post-retirement healthcare benefits to eligible members and dependents. The CERS medical insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the Board of Trustees of Kentucky Retirement Systems, the Kentucky Department of Employee Insurance and the General Assembly.

Funding Policy – The post-retirement healthcare provided by CERS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help with the medical expenses of the plan.

NOTE 8 – 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.

NOTE 9 – GRANTS AND CONTRIBUTIONS

Grants and contributions for the year ending December 31 were as follows:

	2014	2013
State grants	$ 24,480	$ -
Federal grants	-	-
Tap-on fees	41,035	38,650
Contributed lines	16,823	3,112
	$ 82,338	$ 41,762

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Christian County Water District Board of Commissioners entered into an agreement with the District's General Manager regarding payment for accumulated compensatory time. The District agreed to pay the General Manager the amount of $36,000 (non-interest bearing) as payment in full for compensatory time earned during the General Manager's employment with the District through the date of the agreement. This pay out, to be paid in twelve annual installments of $3,000 each, began 2007 with the final payment due 2018. The balance of this commitment at December 31, 2014 and 2013, included in the liability for compensated absences, is $12,000 and $15,000, respectively.

FINANCIAL STATEMENT, REPORTS AND SCHEDULES

REQUIRED BY

GOVERNMENT AUDITING STANDARDS

CHRISTIAN COUNTY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Federal Grantor/ Program Title	Federal CFDA Number	Federal Disbursements/ Expenditures
U.S. Department of Agriculture	CFDA No.	
Rural water and waste loan program	10.760	$2,121,500

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award program presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A–133, *Audits of States, Local Governments, and Non – Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

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SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA

Kem, Duguid & Associates, PSC
Certified Public Accountants

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*

Commissioners
Christian County Water District
Hopkinsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Christian County Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Christian County Water District's basic financial statements, and have issued our report thereon dated March 25, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2014-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Christian 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 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.*

Christian County Water District's Response to Finding

Christian County Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Christian County Water District's 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 result of that testing, and not to provide an opinion on the effectiveness of the District'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 District' s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KEM, DUGUID & ASSOCIATES, P.S.C.

Kem, Duguid & Associates, P.S.C.

Certified Public Accountants
Hopkinsville, Kentucky

March 25, 2015

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Commissioners
Christian County Water District
Hopkinsville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Christian County Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Christian County Water District's major federal program for the year ended December 31, 2014. Christian County Water District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Christian County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Christian County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Christian County Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Christian County Water District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of Christian County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Christian County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Christian County Water District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KEM, DUGUID & ASSOCIATES, P.S.C.

Kem, Duguid & Associates, P.S.C.

Certified Public Accountants
Hopkinsville, Kentucky

March 25, 2015

CHRISTIAN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Christian County Water District.

2. One significant deficiency disclosed during the audit of the financial statements is reported in Section B of this schedule. No material weaknesses are reported.

3. No instances of noncompliance material to the financial statements of Christian County Water District, which would be required to be reported in accordance with *Government Auditing Standards,* were disclosed during the audit.

4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit as reported in Section C. No material weaknesses are reported.

5. The auditors' report on compliance for the major federal award program for Christian County Water District expresses an unmodified opinion.

6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

7. The program tested as a major program was: CFDA No. 10.760 - Rural Water and Waste Loan and Grant Program.

8. The threshold for distinguishing Types A and B programs was $300,000.

9. Christian County Water District was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

Significant Deficiency:

2014-01 Internal Controls

Condition: The District does not have control over the preparation of the financial statements, including footnote disclosures, which would prevent or detect a misstatement in the financial statements. The independent auditor cannot be a compensating control for the client.

Criteria: Statement on Auditing Standards (SAS 115) states that a control deficiency exists when an entity does not have controls in place which would prevent or detect a misstatement in the financial statements.

Cause: Available funds do not allow for such staffing.

Effect: Lack of accountability and possible misstatement of financial statements, including footnote disclosures.

Recommendation: The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements

Views of Responsible Officials and Planned Corrective Actions: It is not feasible for the District to invest the resources for a member of the financial accounting staff to obtain the training necessary to obtain the knowledge related to Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) pronouncements and to remain current with this knowledge. Management does not consider the deficiency to be imperative to the daily internal control operations of the District.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

CHRISTIAN COUNTY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

There were no prior year audit findings to report for Christian County Water District.