

**HENDERSON WATER UTILITY-**  
**CITY OF HENDERSON, KENTUCKY - WATER AND SEWER**  
**COMMISSION**

Report on Audited Financial Statements  
For the fiscal years ended June 30, 2015 and 2014

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## **Independent Auditors' Report**

To the Board of Commissioners  
Henderson Water Utility- City of Henderson, Kentucky - Water and Sewer Commission  
Henderson, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Henderson Water Utility- City of Henderson, Kentucky - Water and Sewer Commission, as of and for the year ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Henderson Water Utility- City of Henderson, Kentucky - Water and Sewer Commission 's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Henderson Water Utility- City of Henderson, Kentucky - Water and Sewer Commission as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in conformity 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 Discussion and Analysis on pages 3 through 6 and schedules of the Commission's Proportionate Share of Net Pension Liabilities and Commission Contributions, on pages 34 and 35, 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 audit was conducted for the purpose of forming opinions on the financial statements as a whole. The Supplemental Schedules of Revenues, Expenses, and Changes in Net Position by Division for the fiscal years ended June 30, 2015 and 2014 on pages 32 and 33 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Implementation of New Accounting Standards**

As disclosed in Note 1 to the financial statements, the Henderson Water Utility implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No.68*, during the fiscal year ended June 30, 2015.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Henderson Water Utility- City of Henderson, Kentucky - Water and Sewer Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Henderson Water Utility- City of Henderson, Kentucky - Water and Sewer Commission's internal control over reporting and compliance.



Henderson, Kentucky  
November 3, 2015

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Management's Discussion and Analysis**

The Henderson Water Utility- City of Henderson, Kentucky - Water and Sewer Commission (HWU) is in the business of providing water, wastewater, and stormwater services for the City of Henderson, Kentucky as well as parts of Henderson, Webster, and McLean counties. The following discussion and analysis of HWU's financial performance provides an overview of the company's financial activities for the fiscal year ended June 30, 2015.

**Overview of the Financial Statements**

This annual financial report consists of three parts: 1) Management's Discussion and Analysis, 2) Financial Statements, and 3) Various Additional Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements. The statements are followed by a section of Supplemental Information that further explains and supports the information in the Financial Statements. The Financial Statements of HWU report information about HWU using accounting methods similar to those used by private sector companies, except for the reporting of contributions in aid of construction, equity capital, and retained earnings as required by the Government Accounting Standards Board.

The Statement of Net Position, successor to the Balance Sheet, includes all of the HWU's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to HWU's creditors (liabilities). It also provides the basis for evaluating the capital structure of HWU and assessing the liquidity and financial flexibility of HWU.

All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position, successor to the Income Statement. This statement measures the success of HWU's operations over the past year and can be used to determine whether the utility has successfully recovered all of its costs through water and wastewater charges, has earned a profit, and has maintained credit-worthiness.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the HWU's cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides information on the sources and uses of cash and the changes in cash balances during the year.

**Financial Highlights**

- HWU's total assets increased by 5.9% from \$89,669,827 at June 30, 2014 to \$94,990,325 at June 30, 2015 primarily due to the borrowing of funds in order to complete the expansion of the City's wastewater treatment plant and make improvements to the two water treatment plants.
- Operating revenues decreased \$127,331 or .7% from \$17,732,340 to \$17,605,009 due primarily to weather-related decreased residential usage and decreased industrial usage partially offset by a 5.85% rate increase on non-contractual customers that went into effect in July 2014.
- Operating expenses increased by \$264,260 or 1.7% from \$15,155,456 to \$15,419,716 due primarily to higher depreciation and contractual service expense partially offset by lower utility and personnel related expenses.
- Income before contributions and distributions decreased by \$ 744,672 or 50.1% from \$1,484,988 to \$740,316 due to the combined effect of the decrease in operating revenues and increase in operating expenses outlined above as well as by higher interest expense due to the increase in long term debt.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Management's Discussion and Analysis**

**Condensed Comparative Financial Statements**

**Statement of Net Position**

	<u>2015</u>	<u>2014</u>	<u>Difference</u>	<u>Percent</u>
Current Assets	\$ 15,696,131	\$ 13,363,674	\$ 2,332,457	17.5%
Restricted Assets	887,676	1,248,639	(360,963)	-28.9%
Non-current Assets	147,896	217,216	(69,320)	-31.9%
Capital Assets	<u>78,258,622</u>	<u>74,840,298</u>	<u>3,418,324</u>	<u>4.6%</u>
Total Assets	<u>94,990,325</u>	<u>89,669,827</u>	<u>5,320,498</u>	<u>5.9%</u>
Deferred Outflow of Resources	<u>655,170</u>	<u>-</u>	<u>655,170</u>	<u>100.0%</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 95,645,495</u>	<u>\$ 89,669,827</u>	<u>\$ 5,975,668</u>	<u>6.7%</u>
Current Liabilities	\$ 5,209,018	\$ 6,009,669	\$ (800,651)	-13.3%
Long-term Liabilities	<u>45,392,331</u>	<u>34,490,240</u>	<u>10,902,091</u>	<u>31.6%</u>
Total Liabilities	<u>50,601,349</u>	<u>40,499,909</u>	<u>10,101,440</u>	<u>24.9%</u>
Deferred Inflow of Resources	<u>560,000</u>	<u>-</u>	<u>560,000</u>	<u>100.0%</u>
Invested in Capital Assets, net of related debt	36,103,169	38,172,437	(2,069,268)	-5.4%
Restricted for Debt Service	699,042	141,941	557,101	392.5%
Unrestricted	<u>7,681,935</u>	<u>10,855,540</u>	<u>(3,173,605)</u>	<u>-29.2%</u>
Total Net Position	<u>44,484,146</u>	<u>49,169,918</u>	<u>(4,685,772)</u>	<u>-9.5%</u>
Total Liabilities, Deferred Inflow of Resources, and Net Position	<u>\$ 95,645,495</u>	<u>\$ 89,669,827</u>	<u>\$ 5,975,668</u>	<u>6.7%</u>

Total net assets decreased \$4,685,772 in the fiscal year ended June 30, 2015 primarily due to increased long term debt and the recognition of HWU's portion of the CERS unfunded pension liability under GASB 68. The capital improvements were funded primarily by funds borrowed by the City of Henderson. The increase in overall debt was due to new amounts borrowed by the City which HWU is obligated to pay. Debt is discussed in more detail in the sections titled Capital Assets and Debt Administration.

**Statement of Revenues, Expenses, and Changes in Net Position**

	<u>2015</u>	<u>2014</u>	<u>Difference</u>	<u>Percent</u>
Operating Revenues	\$ 17,605,009	\$ 17,732,340	\$ (127,331)	-0.7%
Operating Expenses	<u>15,419,716</u>	<u>15,155,456</u>	<u>264,260</u>	<u>1.7%</u>
Operating Income	2,185,293	2,576,884	(391,591)	-15.2%
Net Non-Operating Activities	<u>(1,444,977)</u>	<u>(1,091,896)</u>	<u>(353,081)</u>	<u>32.3%</u>
Changes in Net Position before Contributions and Transfers	740,316	1,484,988	(744,672)	-50.1%
Transfers	(400,000)	(400,000)	-	0.0%
Capital Contributions	150,000	-	150,000	100.0%
GASB 68	<u>(5,176,088)</u>	<u>-</u>	<u>(5,176,088)</u>	<u>-</u>
Total Change in Net Position	<u>\$ (4,685,772)</u>	<u>\$ 1,084,988</u>	<u>\$ (5,770,760)</u>	<u>-531.9%</u>

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Management's Discussion and Analysis**

Operating revenues decreased by \$127,331. The decrease in operating revenues was primarily due to weather conditions and a decrease in major contractual customer demand partially offset by an increase in non-contractual volumetric rates. Operating expenses increased by \$264,260. The key components of operating expenses are: operation and maintenance expenses and depreciation expense. Operation and maintenance expense decreased by \$57,420 primarily due to decreased personnel related costs partially offset by higher contractual service expense. Depreciation expense increased by \$322,234 as newly capitalized assets of the long term control plan went on line.

**Statement of Cash Flows**

	2015	2014	Difference	Percent
Cash Provided (Used) by:				
Operating Activities	\$ 5,831,818	\$ 4,846,191	\$ 985,627	20.3%
Financing Activities:				
Non-capital	(400,000)	(400,000)	-	0.0%
Capital	(3,419,728)	1,611,609	(5,031,337)	-312.2%
Investing Activities	405,705	456,602	(50,897)	-11.1%
Net Change in Cash	<u>\$ 2,417,795</u>	<u>\$ 6,514,402</u>	<u>\$ (4,096,607)</u>	<u>-303.0%</u>

Cash from Operating Activities increased by \$985,627 primarily due to the rate increase and lower cash expenses. Cash used by Capital and Related Financing Activities increased by \$5,031,337 due to increased capital spending and lower proceeds from the issuance of long-term debt. Cash Provided by Investing Activities decreased by \$50,897 primarily due to the fact that there was no gain on sale of land in the year ended June 30, 2015.

**Capital Assets**

HWU staff has prepared a Strategic Plan for Capital Spending in the water, wastewater and stormwater systems. This document provides an overview of the anticipated needs of the Henderson Water Utility to repair, replace and add to our existing infrastructure for the period through 2024. This plan will be updated annually, and will assist in the annual capital budgeting process.

HWU entered into a Consent Judgment with the Commonwealth of Kentucky's Environmental & Public Protection Cabinet (EPPC) in 2007 related to reducing the negative environmental impacts of the City's combined sewer system on water quality. An Agreed Order was also issued by the U.S. EPA.

Under that Consent Judgment, HWU was required to prepare and submit a Long Term Control Plan (LTCP) to the EPPC and EPA in early 2009. The LTCP and the projects incorporated in the plan were finally approved by both regulatory agencies in April 2012. HWU is required by the Agreed Order to complete all components of the plan before December of 2017, to mitigate the negative environmental impacts of the City's combined sewer system on water quality in the Ohio River and Canoe Creek. Those projects are now nearly complete. We have completed the Downtown Sewer Separation Project which is one of three major components of the LTCP. A second major component of the plan, the Canoe Creek Interceptor Phase II is also complete, and the third major component, the expansion of the North Wastewater Treatment Plant is under construction and will be completed in the first quarter of calendar year 2016. Lastly, the renovation of the Janalee Drive sewer pump station, which is a part of the North Wastewater Treatment Plant project, was completed in June 2015.

From 1996 through 2009 we spent an estimated \$20 million dollars on capital improvements to our combined sewer system. Our future Capital Improvement Program through 2017 is dominated by the three large-scale, multi-year projects that are identified in the LTCP and mandated under the Consent Judgment. The current estimate of costs related to the LTCP is \$43.6 Million and depending upon various factors and future developments, this estimate of cost is not expected to increase before the final completion date in 2016.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Management's Discussion and Analysis**

A major concern of focusing all of our capital investments on the LTCP to meet the Consent Judgment requirements is that we have been unable to fund other necessary infrastructure and operating needs. HWU's treatment plants, water distribution system, sewer and storm water collection systems also must be routinely repaired, replaced and upgraded. With extremely limited funds available for other capital needs from now until 2017, we have been forced to delay investments in our other critical infrastructure. Additional borrowing of \$3 million completed in September 2014 will be used to fund critical projects in both the North and South water systems. That process has begun with painting of the 500,000 gallon Frontier water storage tank beginning in July 2015, and with planning and design of various projects at the South Water Treatment Plant, including replacing the 800,000 gallon Clearwell, repairs to the existing plant to prolong its life, and planning for an upgrade to Membrane Filtration. In addition, a project to complete critical repairs to the North Water Treatment Plant is under contract and will be starting in September 2015.

Stormwater needs are ongoing and growing. HWU has completed a number of small drainage projects over the last year, and maintains a prioritized list of future projects. One notable project completed in calendar year 2015 was the Cooper Park Project, which utilized a State grant to provide stormwater relief in an older subdivision located on the North Fork of Canoe Creek. This project was constructed by HWU crews.

We also know that new, more stringent regulations are on the horizon that will require greater capital investment in advanced water and sewer treatment technology within the next few years. As our projects are completed, other requirements within the Consent Judgment will require investments in equipment and technology to collect data and monitor our progress toward improving water quality.

Our challenge is to balance all of these competing needs while providing our customers with quality services at an affordable price.

**Debt Administration**

At June 30, 2015, HWU had \$3,325,000 principal outstanding in Series 2006A Revenue Bonds. HWU also had other debt of \$37,148,566 which includes a loan from the Kentucky Infrastructure Authority for \$2,010,333 towards which the revenues of Tyson Foods and the City of Sebree are pledged. Also, the City of Henderson issued 2010 A & B Series Bonds and 2012, 2013 and 2014 Series Bonds in order to finance HWU's Long-Term Control Plan (LTCP) projects, necessary water plant improvements and refinance some of both entities Kentucky Area Development debt. The Water and Sewer Commission has committed to reimbursing the City for all debt service payments made for these particular issuances.

**Economic Factors and Next Year's Budgets and Rates**

Water sales and wastewater services revenues in the fiscal year ending June 30, 2016, are expected to increase by \$1.0 million over 2015 actual primarily due to increased volumetric rates and volumetric throughput increases from our non-contractual customers as well as more normal weather conditions. Operation and maintenance expenses in the fiscal year ending June 30, 2015 are budgeted to increase by \$794,133 or 4.9% from the budgeted fiscal year ended June 30, 2015. Management believes the 2016 fiscal year budget adequately addresses all revenue requirements, assuming no deterioration in economic conditions.

**Contacting HWU's Financial Management**

The financial report is designed to provide our citizens, ratepayers, customers and creditors with a general overview of HWU's finances and to show HWU's accountability for the money it receives. If you have questions about this report or need additional financial information, contact HWU at 111 Fifth Street, Henderson, Kentucky, 42420.



**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Statements of Net Position  
As of June 30, 2015 and 2014**

	<b>Assets</b>	
	<u>2015</u>	<u>2014</u>
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 11,445,981	\$ 9,028,245
Investments	2,102,550	2,101,057
Accounts receivable, consumers	1,208,699	1,277,232
Accrued interest receivable	1,873	934
Inventories	902,859	923,759
Prepaid expenses	34,169	32,447
Total Current Assets	<u>15,696,131</u>	<u>13,363,674</u>
<u>Restricted Assets:</u>		
Cash and cash equivalents	188,629	188,570
Investments	699,042	1,060,060
Accrued interest receivable	5	9
Total Restricted Assets	<u>887,676</u>	<u>1,248,639</u>
<u>Capital Assets:</u>		
Non-depreciable	862,879	862,879
Depreciable, net of accumulated depreciation	65,543,184	66,598,234
Construction in progress	11,852,559	7,379,185
Total Capital Assets	<u>78,258,622</u>	<u>74,840,298</u>
<u>Other Assets</u>	<u>147,896</u>	<u>217,216</u>
Total Assets	<u>94,990,325</u>	<u>89,669,827</u>
<u>Deferred Outflows of Resources</u>		
Total Deferred Outflows of Resources	<u>655,170</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 95,645,495</u>	<u>\$ 89,669,827</u>

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

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Statements of Net Position, Continued  
As of June 30, 2015 and 2014**

**Liabilities, Deferred Inflows of Resources, and Net Position**

	<b>2015</b>	<b>2014</b>
<u>Current Liabilities:</u>		
Accounts payable	\$ 901,504	\$ 1,874,492
Retainage payable	513,404	435,935
Deposits payable	80,694	77,415
Accrued interest payable	160,571	131,882
Current portion, long-term debt	1,842,712	1,499,023
Compensated absences	468,247	458,272
Accrued liabilities	904,364	618,251
Total Current Liabilities	4,871,496	5,095,270
<u>Current Liabilities Payable from Restricted Assets:</u>		
Accrued interest payable	37,522	39,399
Current portion, long-term debt	215,000	800,000
Current portion, capital lease obligations	85,000	75,000
Total Current Liabilities Payable from Restricted Assets	337,522	914,399
Total Current Liabilities	5,209,018	6,009,669
<u>Non-Current Liabilities:</u>		
Compensated absences	200,677	196,402
Accrued pension liability	5,018,088	-
Capital lease obligations, net of current portion	1,700,000	1,785,000
Long-term debt, net of current portion	38,473,566	32,508,838
Total Non-Current Liabilities	45,392,331	34,490,240
Total Liabilities	50,601,349	40,499,909
<u>Deferred Inflows of Resources:</u>		
Total Deferred Inflows of Resources	560,000	-
<u>Net Position:</u>		
Invested in capital assets, net of related debt	36,103,169	38,172,437
Restricted for debt service	699,042	141,941
Unrestricted	7,681,935	10,855,540
Total Net Position	44,484,146	49,169,918
Total Liabilities, Deferred Inflows of Resources, and Total Net Position	\$ 95,645,495	\$ 89,669,827

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

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Statements of Revenues, Expenses, and Changes in Net Position  
For the fiscal years ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b><u>Support and revenues:</u></b>		
Water sales	\$ 6,900,359	\$ 7,462,510
Water penalties, surcharges and fees	67,801	77,002
Wastewater fees	10,352,108	9,877,101
Wastewater penalties, surcharges and fees	284,741	315,727
Total operating revenues	17,605,009	17,732,340
<b><u>Operating expenses:</u></b>		
Water pumps and tanks	227,365	168,524
Water intake and treatment	3,330,630	3,733,539
Water transmission and distribution	1,208,528	1,684,242
Wastewater pumping stations	1,218,893	1,576,820
Wastewater lines and connections	562,369	690,821
Wastewater pretreatment and treatment	4,137,147	3,900,480
Stormwater	1,409,219	397,699
Depreciation	3,325,565	3,003,331
Total expenses	15,419,716	15,155,456
Operating income	2,185,293	2,576,884
<b><u>Non-operating revenues (expenses):</u></b>		
Investment income	31,150	29,481
Gain on sale/impairment of assets	(263,957)	42,095
Miscellaneous income	25,479	21,039
Interest expense	(1,213,579)	(1,148,971)
Amortization	(24,070)	(35,540)
Total non-operating revenues (expenses)	(1,444,977)	(1,091,896)
Increase in net position before contributions and transfers	740,316	1,484,988
Distribution to the City of Henderson	(400,000)	(400,000)
Capital contributions	150,000	-
Increase in net position	490,316	1,084,988
Cumulative effect of change in accounting principle- GASB 68	(5,176,088)	-
Net position at beginning of year	49,169,918	48,084,930
Net position at end of year	\$ 44,484,146	\$ 49,169,918

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

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Statements of Cash Flows  
For the fiscal years ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b><u>Cash flows from operating activities:</u></b>		
Receipts from customers	\$ 17,944,434	\$ 17,578,611
Payments to suppliers for goods or services	(6,199,081)	(6,884,141)
Payments to employees for services	(5,913,535)	(5,848,279)
Net cash provided by operating activities	5,831,818	4,846,191
<b><u>Cash flows from non-capital financing activities:</u></b>		
Distributions to the City of Henderson	(400,000)	(400,000)
Net cash used by non-capital financing activities	(400,000)	(400,000)
<b><u>Cash flows from capital and related financing activities:</u></b>		
Acquisition and construction of capital assets	(8,075,514)	(5,214,090)
Proceeds from issuance of long-term debt	8,045,812	9,848,183
Principal payments on long-term debt	(2,374,586)	(2,330,395)
Interest payments on long-term debt	(1,177,253)	(1,101,086)
Proceeds from contributed capital	150,000	134,209
Proceeds from sale of land	2,400	262,905
Proceeds from sale of capital assets	9,413	11,883
Net cash provided (used) by capital and related financing activities	(3,419,728)	1,611,609
<b><u>Cash flows from investing activities:</u></b>		
Gain (loss) on sale of land	-	42,095
Purchase of investment securities	(661,943)	(561,141)
Proceeds from sale and maturity of investment securities	1,021,468	943,546
Investment and other income	46,180	32,102
Net cash provided by investing activities	405,705	456,602
Net increase (decrease) in cash and cash equivalents	2,417,795	6,514,402
Cash and cash equivalents, beginning of year	9,216,815	2,702,413
Cash and cash equivalents, end of year	\$ 11,634,610	\$ 9,216,815
<b><u>Reconciliation of total cash and cash equivalents:</u></b>		
Current assets-cash and cash equivalents	\$ 11,445,981	\$ 9,028,245
Restricted assets-cash and cash equivalents	188,629	188,570
Total cash and cash equivalents	\$ 11,634,610	\$ 9,216,815

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

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Statements of Cash Flows, continued  
For the fiscal years ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 2,185,293	\$ 2,576,884
Items to reconcile net operating income to net cash provided by operations:		
Depreciation	3,325,565	3,003,331
Changes in operation asset and liabilities		
Accounts receivable, consumers	68,533	8,259
Inventories	20,900	20,546
Prepaid expenses	(1,722)	785
Accounts payable	163,615	(600,016)
Due to related party	-	(90,867)
Compensated absences	14,250	(2,078)
Accrued liabilities	55,384	(70,653)
	-	
Net cash provided by operating activities	\$ 5,831,818	\$ 4,846,191

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

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Henderson Water Utility- City of Henderson, Kentucky - Water and Sewer Commission ("Commission") conform to generally accepted accounting principles (GAAP) applicable to governmental enterprise units. The following summary of the more significant policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

Reporting Entity

The Henderson Water Utility- City of Henderson, Kentucky - Water and Sewer Commission is a component unit of the City of Henderson, Kentucky. Its purpose is to construct, operate, and maintain water and sewer service facilities and supply water to the City of Henderson and surrounding areas. It is legally separate from the City of Henderson but its governing body is appointed by the City Commission of Henderson. The financial statements presented here are also included in the comprehensive annual financial report of the City of Henderson, Kentucky.

Basis of Accounting Presentation

The Commission is a single-enterprise proprietary fund and uses the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recognized as soon as they result in liabilities for the benefits provided. Proprietary funds are used to account for operations (a) that are financed in a manner similar to private business enterprise-where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and (b) that a periodic determination of revenues earned, expenses incurred and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The financial statements are prepared on the basis of Governmental Accounting Standards Board (GASB), Statement Number 34, *Basic Financial Statements, Management Discussion and Analysis for State and Local Governments* and related standards.

The Henderson Water Utility is accounted for as an enterprise fund. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*, the Utility applies all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Charges for services include revenues based on exchange or exchange-like transactions, namely water and sewer use. Program-specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

Allocation of overhead expenses from one function to another, and within one function, is eliminated in the statement of activities so that allocated expenses are reported only by the function in which they are allocated.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

New Accounting Pronouncements

The Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment to GASB 68*. The provisions of these statements are effective for financial statements for fiscal years beginning after June 15, 2014. The implementation of GASB Statements No. 68 and 71 resulted in a cumulative effect of change in accounting principle which reduced the net position of the Commission by \$5,176,088. Additionally, implementation of the new GASB statements also resulted in the recording of related deferred outflows and inflows of resources, and an unfunded pension liability which is further discussed in Note 8.

For the fiscal year ended June 30, 2014, the Commission implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under GASB Statement No. 65, defeasance on refundings of debt were treated as a deferred outflow of resources. Bond issuance costs were not expensed the year incurred due to the rate determination of major customers. Further details can be found in Note 1 to the Financial Statements under the heading 'Debt Issuance Costs'.

Measurement Focus

The Commission's costs of services or "capital maintenance" measurement focus are all financial and economic resources. All assets and liabilities associated with the Commission's operations are included in the Statement of Net Assets. Depreciation is reported as a cost of operations.

Cash and Cash Equivalents

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

Accounting and Related Services

The Water and Sewer Commission has an agreement with the City of Henderson to perform its billing and collection services. All monies collected and due to the Commission are maintained in the City of Henderson's Utility Clearing Fund and are paid to the Commission on a weekly basis. The City of Henderson also processes the recording and payment of vendor invoices and the biweekly payroll processing for the Commission. In addition, the City manages the Human Resource function's administration for the Commission.

Investments

KRS 66.480 permits the Commission to invest in U.S Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial bank certificates of deposit, savings and loan deposits, and the Commonwealth of Kentucky investment pool. Investments are recorded at fair market value based on quoted market prices. Any gains or losses are reflected in the statement of income, in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Inventories

Inventories of chemicals, parts, and supplies are recorded at cost using the FIFO method (first in, first out). The cost is recorded as an asset when purchased and as an expense when used (consumption method).

Restricted Assets

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

Capital Assets

Capital assets are stated at cost. All materials for capital improvements are capitalized when purchased. Construction in progress is not depreciated until completed and placed into service. Interest is capitalized on assets constructed and acquired with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until the completion of the project with interest earned on the invested proceeds from debt issuance over the same period.

Depreciation rates are based upon estimated useful lives and have been applied on the straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Structures, Lines, Mains and Accessories, and System Improvements	5-50
Equipment, Tools and Accessories, Office Equipment, Shop and Lab Equipment	7-10
Transportation Equipment	5
Rental Property	20

Debt Issuance Costs

The City of Henderson Water and Sewerage Commission’s current rate methodology as it relates to contracts with certain large industrial concerns provides for recovery of debt issue costs through its rate structure; therefore, the Commission has elected to follow the guidance under GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*, rather than GASB No. 65, *Items Previously Reported as Assets and Liabilities*. Under the guidance of GASB No. 62, the debt issuance costs are considered by management to be a regulatory asset and are amortized over the life of the related debt.



**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the Commission and its employees is accrued as employees earn the rights to the benefits. Employees of the Water and Sewer Commission are entitled to paid vacations and paid sick days, depending on job classification, length of service, and other factors. The Commission's policy is to recognize the costs of accumulated earned, but unused, vacation and sick pay benefits under the accrual method of accounting in accordance with Governmental Accounting Standards No. 16.

Compensated absence activity for the year ended June 30, 2015 was as follows:

	<b>Balance July 01, 2014</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2015</b>
Compensated absences	\$ 654,674	\$ 14,250	\$ -	\$ 668,924

Presented on the statement of net position under the following captions:

Current liabilities-compensated absences	\$ 468,247
Non-current liabilities-compensated absences	200,677
	\$ 668,924

Use of Estimates

The preparation of financial statements in conformity with generally accepted 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.

Deferred Revenue

The Commission reports deferred revenue on its statement of net assets. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, or when the Commission has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and the revenue is recognized.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Net Position

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

- Invested in capital assets, net of related debt- consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted - consists of net assets that are restricted by the Commission's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted- all other net assets are reported in this category.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Retirement Benefits

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

At June 30, 2015, the Water and Sewer Commission maintained deposits in the amount of \$11,634,610 with one local financial institution. Of the bank balances, \$250,000 was insured by federal deposit insurance and the remaining balance was fully collateralized by pledged securities.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 3 – INVESTMENTS**

Investments are summarized as follows at June 30, 2015 and 2014:

<b>June 30, 2015</b>				
<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>		
		<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>
<b>Unrestricted:</b>				
Cash and equivalents	\$ 1,875	\$ 1,875	\$ -	\$ -
U.S. Government Obligations Fund	53,083	53,083	-	-
U.S. Government Securities	2,002,970	2,002,970	-	-
Marketable Securities	44,622	44,622	-	-
	<u>\$ 2,102,550</u>	<u>\$ 2,102,550</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Restricted:</b>				
U.S. Government Obligations Fund	\$ 699,042	\$ 699,042	\$ -	\$ -
	<u>\$ 699,042</u>	<u>\$ 699,042</u>	<u>\$ -</u>	<u>\$ -</u>
<b>June 30, 2014</b>				
<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>		
		<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>
<b>Unrestricted:</b>				
Cash and equivalents	\$ 2,500	\$ 2,500	\$ -	\$ -
U.S. Government Obligations Fund	52,109	52,109	-	-
U.S. Government Securities	2,002,530	2,002,530	-	-
Marketable Securities	43,918	43,918	-	-
	<u>\$ 2,101,057</u>	<u>\$ 2,101,057</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Restricted:</b>				
U.S. Government Obligations Fund	\$ 1,060,060	\$ 1,060,060	\$ -	\$ -
	<u>\$ 1,060,060</u>	<u>\$ 1,060,060</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

As a means of limiting exposures to fair value losses arising from interest rates, the Commission manages the maturities of its investment portfolio. The Commission had approximately \$2,000,000 in investments at June 30, 2015 subject to interest rate risk. The weighted average maturity of these investments was approximately 9 months, which minimizes any interest rate risk on these securities.

Credit Risk

The Water & Sewer Commission is authorized to invest in U.S. Government-backed securities, any corporation of the U.S. Government, Certificates of Deposit and Bankers Acceptances issued by highly rated banks, commercial paper in the highest rating category, and securities issued by a state or local government rated in one of the three highest categories by a nationally recognized rating agency, and any other investment permitted by KRS 66.480.

The only exceptions are the marketable securities owned by the Commission. These securities were obtained by the Commission at no cost when the Utility's life insurance provider converted to a publicly-traded company from a mutual company in 2002. The approximate fair value at June 30, 2015 was \$44,622.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 3 – INVESTMENTS, CONTINUED**

Custodial Credit Risk

For an investment, the custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All restricted and unrestricted investments of the Commission, except for the marketable securities, comprise of uninsured and unregistered investments for which the securities are held by the Commission's trustees in their trust department not in the name of the Henderson Water Utility. As of June 30, 2015, \$2,000,000 of the investments in U.S. Treasury Notes securities are held by and in the name of Field and Main Bank, the counterparty.

Concentration of Credit Risk

The Commission places no limit on the amount that the Commission may invest in any one issuer. More than 5 percent of the Commission's investments are in U.S. Government Obligations Money Market Funds and U.S. Government Agencies' securities.

**NOTE 4 -RESTRICTED ASSETS**

Certain assets of the Water and Sewer Commission, which are restricted by bond and loan covenants, consisted of the following at June 30, 2015 and 2014:

<b>June 30, 2015</b>				
	<b>Cash</b>	<b>U.S. Treasury</b>	<b>Accrued Interest</b>	<b>Total</b>
Bond Sinking	\$ -	\$ 166,474	\$ 1	\$ 166,475
Debt Service Reserve	-	532,568	4	532,572
Operating Reserve	188,629	-	-	188,629
	<b>\$ 188,629</b>	<b>\$ 699,042</b>	<b>\$ 5</b>	<b>\$ 887,676</b>
<b>June 30, 2014</b>				
	<b>Cash</b>	<b>U.S. Treasury</b>	<b>Accrued Interest</b>	<b>Total</b>
Bond Sinking	\$ -	\$ 161,272	\$ 1	\$ 161,273
Debt Service Reserve	-	898,788	8	898,796
Operating Reserve	188,570	-	-	188,570
	<b>\$ 188,570</b>	<b>\$ 1,060,060</b>	<b>\$ 9</b>	<b>\$1,248,639</b>

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the years ending June 30, 2015 and 2014 was as follows:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2015</u>
North:							
Water pumps and tanks	\$ 5,710,696	\$ 22,000	\$ -	\$ 5,732,696	\$ -	\$ -	\$ 5,732,696
Water treatment plant	4,765,159	44,414	-	4,809,573	-	(4,722)	4,804,851
Water transmission and distribution	20,566,628	23,877	-	20,590,505	395,070	-	20,985,575
Wastewater lines and collections	18,010,687	8,065,306	-	26,075,993	61,331	(16,854)	26,120,470
Wastewater pumping stations	2,402,474	4,311,812	-	6,714,286	-	-	6,714,286
Wastewater treatment plant	12,123,781	2,820,109	-	14,943,890	28,712	(258,932)	14,713,670
Stormwater system	12,358,707	17,411	-	12,376,118	1,436,892	-	13,813,010
South:							
Water pumps and tanks	1,645,225	-	-	1,645,225	-	-	1,645,225
Water treatment plant	3,136,477	-	-	3,136,477	30,394	-	3,166,871
Water transmission and distribution	1,200,900	-	-	1,200,900	-	-	1,200,900
Wastewater lines and collections	2,923,222	-	-	2,923,222	-	-	2,923,222
Wastewater pumping stations	1,035,100	-	-	1,035,100	-	-	1,035,100
Wastewater treatment plant	8,734,392	5,602	-	8,739,994	10,024	-	8,750,018
Administration	864,660	17,303	-	881,963	146,253	(16,725)	1,011,491
System operations center	3,615,726	126,692	(21,085)	3,721,333	425,493	(22,000)	4,124,826
	99,093,834	15,454,526	(21,085)	114,527,275	2,534,169	(319,233)	116,742,211
Less: accumulated depreciation	(44,083,915)	21,085	(3,003,332)	(47,066,162)	55,579	(3,325,565)	(50,336,148)
	55,009,919	15,475,611	(3,024,417)	67,461,113	2,589,748	(3,644,798)	66,406,063
Construction in progress	16,438,706	54,144	(9,113,665)	7,379,185	6,449,360	(1,975,986)	11,852,559
Capital assets, net	<u>\$ 71,448,625</u>	<u>\$ 15,529,755</u>	<u>\$ (12,138,082)</u>	<u>\$ 74,840,298</u>	<u>\$ 9,039,108</u>	<u>\$ (5,620,784)</u>	<u>\$ 78,258,622</u>

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 6 – LONG-TERM DEBT**

Long-term debt of the Water and Sewer Commission consists of the following as of June 30, 2015 and 2014:

	<b>Balance June 30, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2014</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2015</b>	<b>Due Within One Year</b>
Series 2004A Water and Sewer	\$ 1,160,000	\$ -	\$ (565,000)	\$ 595,000	\$ -	\$ (595,000)	\$ -	\$ -
Series 2006A Water and Sewer	3,725,000	-	(195,000)	3,530,000	-	(205,000)	3,325,000	215,000
Note to City of Henderson-2010A	9,285,000	-	(425,000)	8,860,000	-	(430,000)	8,430,000	435,000
Note to City of Henderson-2010B	1,363,480	-	(112,280)	1,251,200	-	(110,470)	1,140,730	113,491
Note to City of Henderson-2012A	9,580,000	-	(415,000)	9,165,000	-	(420,000)	8,745,000	425,000
Note to City of Henderson-2013A	-	9,730,000	(410,000)	9,320,000	-	(405,000)	8,915,000	410,000
Note to City of Henderson-2014A	-	-	-	-	8,000,000	-	8,000,000	320,000
Kentucky Infrastructure Authority Assistance Agreement	2,272,001	-	(128,115)	2,143,886	-	(133,553)	2,010,333	139,221
<b>Total long-term debt</b>	<b>\$ 27,385,481</b>	<b>\$ 9,730,000</b>	<b>\$ (2,250,395)</b>	<b>\$ 34,865,086</b>	<b>\$ 8,000,000</b>	<b>\$ (2,299,023)</b>	<b>\$ 40,566,063</b>	<b>\$ 2,057,712</b>
Unamortized premiums on bonds				(57,226)			(34,785)	
				<b>\$ 34,807,860</b>			<b>\$ 40,531,278</b>	

Presented on the statement of net assets under the following captions:

Current portion long-term debt	\$ 1,842,712
Current portion long-term debt payable from restricted assets	215,000
Long-term debt, net of current portion and deferred loss on defeasance of bonds	<u>38,473,566</u>
	<u>\$ 40,531,278</u>

Principal and interest requirements to retire the Commission's long-term obligation at June 30, 2015 were as follows:

<u>For the fiscal year ending June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,057,712	\$ 1,124,460	\$ 3,182,172
2017	2,106,275	1,079,584	3,185,859
2018	2,149,902	1,030,674	3,180,576
2019	2,209,007	978,949	3,187,956
2020	2,258,493	924,507	3,183,000
2021-2025	12,134,886	3,678,252	15,813,138
2026-2030	11,534,788	1,856,692	13,391,480
2031-2035	6,115,000	343,367	6,458,367
	<u>\$ 40,566,063</u>	<u>\$ 11,016,485</u>	<u>\$ 51,582,548</u>

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 6 – LONG-TERM DEBT, CONTINUED**

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

	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Principal Balance</u>	<u>Security</u>
Water and Sewer Refunding Revenue Bonds, Series 2004A (Due annually in amounts ranging from \$550,000 to \$595,000)	3.50%-3.75%	11/1/14	\$ -	Utility revenues
Water and Sewer Refunding Revenue Bonds, Series 2006A (Due annually in amounts ranging from \$190,000 to \$355,000)	3.70%-4.375%	11/1/26	\$ 3,325,000	Utility revenues
Kentucky Infrastructure Authority Assistance Agreement B94-03 (Due semi-annually in amounts ranging from \$60,881 to \$108,810)	4.20%	12/1/26	\$ 2,010,333	Utility revenues
Note payable to City of Henderson, (Due annually in amounts ranging from \$420,000 to \$665,000)	1.40%-5.50%	11/1/30	\$ 8,430,000	Unsecured
Note payable to City of Henderson, (Due annually in amounts ranging from \$108,887 to \$144,403)	2.00%-3.50%	11/1/23	\$ 1,140,730	Unsecured
Note payable to City of Henderson, (Due annually in amounts ranging from \$415,000 to \$640,000)	1.00%	11/1/31	\$ 8,745,000	Unsecured
Note payable to City of Henderson, (Due annually in amounts ranging from \$405,000 to \$600,000)	2.00%-2.75%	11/1/32	\$ 8,915,000	Unsecured
Note payable to City of Henderson, (Due annually in amounts ranging from \$320,000 to \$520,000)	2.00%-2.50%	11/01/34	\$ 8,000,000	Unsecured

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 7 – CAPITAL LEASE OBLIGATIONS**

The Water and Sewer Commission entered into a lease agreement to finance the Stormwater project. This lease qualifies as a capital lease for accounting purposes and, therefore, the related assets have been recorded at the present value of the future minimum lease payments as of the date of the agreement which totaled \$2,475,000. The capitalized amount of the lease is being amortized over the life of the assets and is reported as depreciation expense.

The following is a summary of the future lease payments required as of June 30, 2015:

<u>For the fiscal year ending June 30</u>	<u>KADD 2005- Stormwater</u>
2016	\$ 169,513
2017	170,575
2018	166,525
2019-2023	839,575
2024-2028	851,375
2029-2030	<u>325,250</u>
Total minimum lease payments*	2,522,813
Less amount representing interest	<u>(737,813)</u>
Present value of future minimum lease payments	<u>\$ 1,785,000</u>

\* Interest rate on the capital lease ranges from 4.50% to 5.00% and is imputed based on the lower of the Commission's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

Presented on the statement of net assets under the following captions:

Current portion capital lease obligations from restricted assets	\$ 85,000
Capital lease obligations, net of current portion	<u>1,700,000</u>
	<u>\$ 1,785,000</u>

**NOTE 8 – COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS)**

**General Information about the CERS Pension Plan**

*Plan description:* All Commission employees participate in the County Employees' Retirement System (CERS), a multi-employer, cost sharing, defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and supplementary information for CERS. That report can be obtained at <https://kyret.ky.gov>.

*Benefits provided:* 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 (COLA) are provided at the discretion of the State legislature. Kentucky Revised Statute 61.645 assigns the authority to establish and amend benefit provisions to the Kentucky Retirement Systems Board of Trustees.



**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 8 – COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS), CONTINUED:**

*Contributions:* Plan members participating in CERS on or before August 31, 2008, are required to contribute 5% of the annual creditable compensation. For plan members who began participating in CERS on or after September 1, 2008, the contribution rate is 6%. The Commission is required to contribute at an actuarially determined rate. As of June 30, 2015, the Commission's required contribution rate was 17.67% of annual covered payroll. The contribution requirements of plan members and the Commission are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to CERS from the Commission were \$655,170 for the year ended June 30, 2015.

**Pension Liabilities, Pension Expense, and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the Commission reported a liability of \$5,018,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Commission's proportion was 0.016627%.

For the year ended June 30, 2015, the Commission recognized pension expense of \$402,000. At June 30, 2015, the Commission reported deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 560,000
Commission contributions subsequent to the measurement date	655,170	-
Total	\$ 655,170	\$ 560,000

\$655,170 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 8 – COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS), CONTINUED:**

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	<u>Deferred Inflow Amounts</u>
2016	\$ (140,000)
2017	(140,000)
2018	(140,000)
2019	(140,000)
	<u>\$ (560,000)</u>

*Actuarial assumptions:* The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%	
Salary increases	4.5%, average, including inflation	
Investment rate of return	7.75%, net of pension plan expense, including inflation	

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2008.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 8 – COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS), CONTINUED:**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
<b>Total</b>	<b>100%</b>	

*Discount rate:* The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Commission's proportionate share of the net pension liability to changes in the discount rate:* The following presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Commission's proportionate share of the net pension liability	<u>\$ 6,603,000</u>	<u>\$ 5,018,000</u>	<u>\$ 3,617,000</u>

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 8 – COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS), CONTINUED**

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems financial report.

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

**NOTE 9 - DEFERRED COMPENSATION**

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

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

**NOTE 10 - RELATED PARTY TRANSACTIONS**

The Water and Sewer Commission's members are appointed by the Mayor and Commissioners of the City of Henderson. The Water and Sewer Commission is organized to operate, manage, and control the City of Henderson's Wastewater and Stormwater Systems and the City of Henderson is contingently liable for the outstanding bonded indebtedness (Note 5) of the system in the event user charges are inadequate to fulfill the system's debt service requirements. Other transactions with the City of Henderson during the years ended June 30, 2015 and 2014 were as follows:

- a. Payments to the City of \$580,000 and \$569,991 for the years ended June 30, 2015 and 2014, respectively, for data processing; meter-reading; customer service and other services relating to water, wastewater and stormwater billings and collections.
- b. Payments to the City of Henderson of \$400,000 in distributions each year for the years ended June 30, 2015 and 2014.
- c. Payments to the City of \$1,125,738 and \$1,069,222 for health insurance, for the years ended June 30, 2015 and 2014, respectively. The Commission participates in the City of Henderson's self-insurance plan. Risk is minimized by the purchase of re-insurance for amounts in excess of the stop loss limit. Charges are based on amounts determined to fund claims as they become due and payable and are adjusted periodically.
- d. The Commission has recorded payables to the City of Henderson of \$91,408 and \$122,629 as of June 30, 2015 and 2014, respectively. These payables consisted of electric and gas utility payments, reimbursements of street repairs and local payroll tax liabilities.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 10 - RELATED PARTY TRANSACTIONS, CONTINUED:**

- e. The Commission has recorded receivables from the City of Henderson of \$826,107 and \$770,008 as of June 30, 2015 and 2014, respectively. These receivables related to billings and collections of water and wastewater services by the City of Henderson and not yet remitted to the Commission.
- f. During December 2010, the City of Henderson issued General Obligation Bonds Series 2010A and 2010B.

The City's General Obligation Bonds, Taxable Series 2010A Build America Bonds, were issued solely for the Commission to complete construction of the Downtown Sewer separation project. The City of Henderson designated in the bond ordinance that the proceeds of \$10,000,000 were solely for the benefit of the Commission. The Commission is to fully reimburse the City annually for all required debt service payments, net of the Build America bond subsidy received by the City, until the bonds are retired.

The City's General Obligation Bonds, Tax-Exempt Series 2010B, were issued to refund various debt issues of the City of Henderson and the Commission. The City of Henderson designated in the bond ordinance that \$1,591,251 of the 2010B issue, which totaled \$3,605,000, be used to refund the Commission's Kentucky Council of Area Development District 2002 Series 065 debt. The Commission is to fully reimburse the City for its pro-rate share of the debt service payments on the 2010B issue.

- g. During December 2011, the City of Henderson issued General Obligation Bond Series 2012A.

The City's General Obligation Bonds, Tax-Exempt Series 2012A, were issued solely for the Commission to continue construction of the Canoe Creek Phase Two Project and begin construction on the new North Wastewater Plan Head Works Project. The City of Henderson designated in the bond ordinance that the proceeds of \$9,995,000 were solely for the benefit of the Commission. The Commission is to fully reimburse the City annually for all required debt service payments until the bonds are retired. The proceeds from the bond issue are held in a restricted construction fund by the City and are transferred to the Commission as needed for project costs.

- h. During October 2013, the City of Henderson issued General Obligation Bond Series 2013A.

The City's General Obligation Bonds, Tax-Exempt Series 2013A, were used to complete construction of the Canoe Creek Phase Two Project and continue construction on the North Wastewater Plan Head Works Project. The City of Henderson designated in the bond ordinance that the proceeds of \$9,730,000 were solely for the benefit of the Commission. The Commission is to fully reimburse the City annually for all required debt service payments until the bonds are retired. The proceeds from the bond issue are held in a restricted construction fund by the City and are transferred to the Commission as needed for project costs.

- i. During September 2014, the City of Henderson issued General Obligation Bond Series 2014

The City's General Obligation Bonds, Tax-Exempt Series 2014, were issued to complete projects in the North and South water systems. The City of Henderson designated in the bond ordinance that the proceeds of \$8,000,000 were solely for the benefit of the Commission. The Commission is to fully reimburse the City annually for all required debt service payments until the bonds are retired. The proceeds from the bond issue are held in a restricted construction fund by the City and are transferred to the Commission as needed for project costs.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 11 – COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

The Commission operates a secondary water and wastewater treatment facility located in Southeastern Henderson County, Kentucky, capable of producing 4 million gallons on a daily basis. The commission has an inter-local agreement with the Counties of Henderson, McLean and Webster to share equally in the debt service in the event adequate funds are not generated by this facility to cover the amount of the annual debt service. The commission also has agreements to provide water to the following communities:

a. City of Sebree:

In September 1995, the Water and Sewer Commission entered into an agreement with the City of Sebree, Kentucky whereby the Commission agrees to sell and deliver to the City and the City agrees to purchase and receive from the Commission all of the water and sewer services required by the City. The agreement outlines a specific rate, which will be charged by the Commission to the City for water and sewer service. Sales to the City of Sebree totaled \$269,906 and \$273,664 for the years ended June 30, 2015 and 2014, respectively.

b. City of Beech Grove:

In April 1997, the Water and Sewer Commission entered into an agreement with the Beech Grove Water System, whereby the Commission agrees to sell and deliver to the System and the System will purchase and receive from the Commission all of the water services required by the System. The agreement outlines a specific rate, which will be charged by the Commission to the system for water service. The term of the contract will be forty years, expiring in April 2037. Sales to the Beech Grove Water System totaled \$209,358 and \$175,301 for the years ended June 30, 2015 and 2014, respectively.

c. City of Corydon:

In June 1993, the Water and Sewer Commission entered into an agreement with the City of Corydon, Kentucky whereby the Commission agrees to sell and deliver to the City and the City agrees to purchase and receive from the Commission all of the sewer services required by the City. The agreement outlines a specific rate, which will be charged by the Commission to the City for sewer service. The term of the contract will be forty years expiring in July 2033. Sales to the City of Corydon totaled \$39,634 and \$36,054 for the years ended June 30, 2015 and 2014, respectively.

d. Henderson County Water District:

In June 1989, the Water and Sewer Commission entered into an agreement with the Henderson County Water District, whereby the Commission agrees to sell and deliver to the District and the District will purchase and receive from the Commission all of the water services required by the District. The agreement outlines a specific rate, which will be charged by the Commission to the District for water service. The term of the contract will be forty years, expiring in July 2029. Sales to the Henderson County Water District totaled \$1,077,418 and \$1,118,314 for the years ended June 30, 2015 and 2014, respectively.

e. Tyson Foods, Inc.:

In November 1994, amended February 1998 and October 2000, the Water and Sewer Commission entered into an agreement with Tyson Foods, Inc. (formerly Hudson Foods, Inc.) whereby the Commission agrees to sell and deliver to Tyson and Tyson agrees to purchase and receive from the Commission all of the water and sewer service. The term of the contract will be twenty years, expiring in June 2018. Sales to Tyson foods, Inc. totaled \$5,117,110 and \$5,731,934 for the years ended June 30, 2015 and 2014, respectively.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 11 – COMMITMENTS AND CONTRACTUAL OBLIGATIONS, CONTINUED**

f. International Paper Company (formerly Weyerhaeuser Company):

In January 1996, amended October 1998, and July 1999, the Water and Sewer Commission entered into an agreement with the International Paper Company (formerly Weyerhaeuser Company) whereby the Commission agrees to sell and deliver to the International Paper Company and the International Paper Company agrees to purchase and receive from the Commission all of the water and sewer services required by the International Paper Company. The agreement outlines a specific rate, which will be charged by the Commission to the International Paper Company for water and sewer service. Sales to the International Paper Company totaled \$2,051,818 and \$1,960,457 for the years ended June 30, 2015 and 2014, respectively.

g. Big Rivers Electric Corporation:

In March 1995, the Water and Sewer Commission entered into an agreement with Big Rivers Electric Corporation, whereby the Commission agrees to sell and deliver to Big Rivers Electric Corporation and Big Rivers Electric Corporation will receive from the Commission all of the water and sewer services required by Big Rivers Electric Corporation. The agreement outlines that no rate or fee will be charged by the Commission to Big Rivers Electric Company for water and sewer service on 50,000 and 20,000 gallons, respectively, per day. The terms of the contract state that it continues until terminated by either party with one year notice. The commission has elected to waive any charge for sewer service in excess of the 20,000 gallons per day limit as well, effective July 1, 2008. This waiver was approved due to the fact that Big Rivers Electric Corporation provides power for pumping equipment at the South Water Treatment Plan free of charge to the Commission.

**NOTE 12 - CONCENTRATION OF SALES**

For the year ended June 30, 2015, three industrial customers account for \$7,553,441 in sales and surcharges for approximately 43% of the Commission's total operating revenues. For the year ended June 30, 2014, sales attributable to these companies were \$8,450,706 or approximately 48% of total revenues.

**NOTE 13 - RISK MANAGEMENT**

The Commission 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 Commission carries commercial insurance for these types of risks 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 14 - DEFEASANCE ON ADVANCED REFUNDING**

During December 2010, the City of Henderson issued on behalf of the Henderson Water Utility, City of Henderson, General Obligation Refunding Bond Series 2010B in the aggregate principal amount of \$3,605,000. The proceeds of the Bonds were used to provide funds for the refunding of certain City of Henderson debt obligations and the Henderson Water Utility debt described as follows:

Kentucky Council of Area Development District, Series 2002 Capital Lease, maturing November 20, 2011 through November 20, 2023	<u>\$ 1,470,000</u>
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**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 14 - DEFEASANCE ON ADVANCED REFUNDING, CONTINUED:**

To accomplish such refunding, the City purchased certain direct obligations of the United States of America which bear interest and matured in such a manner as to pay the debt service of the defeased debt. These direct obligations of the United State of America were deposited with the Trustee in a refunding escrow account and

pledged to pay debt service and interest on the bonds to be refunded when due, through the June 1, 2012 redemption (call) date.

The KADD Series 2002 debt was called and paid off on December 30, 2012 and is no longer legally deemed to be outstanding, nor is the Commission bound under its provisions.

For the Commission's portion of the refunding, after payment of the new debt issuance costs, the proceeds from the new debt totaled \$1,565,962. The direct United States of America obligations acquired with the proceeds of the new debt will yield 2.6171617% and will be applied as follows:

Deposit to the Bond Refunding Escrow Account the present value of the debt service requirement to service the old debt (discounted at the appropriate yield for each issue):

Total required deposits	<u>\$ 1,591,251</u>
Deposits from proceeds of new debt	<u>\$ 1,591,251</u>
Proceeds from new debt invested in direct United States of America obligations	1,565,962
Debt issuance costs	21,370
Discount on new bonds	<u>3,919</u>
New debt	<u>\$ 1,591,251</u>

The cash flow effect and the economic gain of this refunding are shown below:

	<u><b>KADD 2002</b></u>	<u><b>2010B Series Bond</b></u>	<u><b>Difference</b></u>
Cash flow required to service bonds to maturity	<u>\$2,011,713</u>	<u>\$ 1,916,255</u>	<u>\$ 95,458</u>

The economic gain is the difference between the present value of the 2002 KADD debt service requirements and the present value of the Commission's allocated portion of the 2010B Series Bonds debt service requirements, adjusted for additional cash paid and discounted at the effective rate of the 2010B Series Bonds. The economic gain on the advance refunding is \$95,458.



**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Notes to the Financial Statements**

**NOTE 14 - DEFEASANCE ON ADVANCED REFUNDING, CONTINUED:**

The deferred amount on the advance refunding required to be recorded and amortized in future periods is as follows:

	<b>KADD 2002 Series</b>
Carrying amount of old debt as of December 30, 2010:	
Principal	\$ 1,470,000
	\$ 1,470,000
New debt:	
Principal	\$ 1,591,251
Less: Discount on debt	(3,919)
Less: Debt issuance costs	(21,370)
	1,565,962
Deferred amount on KADD 2002 Series advance refunding	\$ (95,962)

**NOTE 15 – CONTINGENCIES**

On August 30, 2007, a Consent Judgment between Henderson Water Utility and the Commonwealth of Kentucky was accepted by the Franklin Circuit Court under Civil Action 07-CI-1250. Under the terms of the Consent Judgment Henderson Water Utility had committed to complete improvements to its sewer system infrastructure in order to comply with certain regulatory requirements of the Federal Clean Water Act.

The Consent Judgment required the development of a Long Term Control Plan and identify sewer system infrastructure improvements that when completed would bring the Commission's combined sewer system into regulatory compliance.

The Long Term Control Plan (LTCP) was submitted to the Kentucky Environmental & Public Protection Cabinet (EPPC) and the U.S. Environmental Protection Agency (EPA) in March 2009 and that LTCP was approved by both agencies in April 2012. The projects identified in the Commission's LTCP must be completed no later than December 2017 under an Administrative Order issued by the EPA.

Several major components of the LTCP have already been completed and other major components are currently under construction, or are under design. Based upon construction costs for completed projects; currently approved construction budgets; and estimate costs of projects under design; the final estimated cost to complete the LTCP and satisfy this component of the Consent Judgment is approximately \$43.6 million. The current estimate of costs remaining as of June 30, 2015 is \$2.65 million.

**NOTE 16 - RECLASSIFICATIONS**

Certain amounts from prior year have been reclassified to conform with the presentation of the current year. These reclassifications had no impact on net position.

**NOTE 17 - SUBSEQUENT EVENTS**

Subsequent events were evaluated through November 3, 2015, the date that the most recent statement of net assets has been evaluated for possible adjustment to the financial statements or disclosure and on which the financial statements were available to be issued.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Supplemental Schedule of Revenues, Expenses, and Changes in Net Position by Division  
For the fiscal year ended June 30, 2015**

	<u>North Water</u>	<u>North Wastewater</u>	<u>Storm water</u>	<u>South Water</u>	<u>South Wastewater</u>	<u>Total</u>
<b>Operating revenues:</b>						
Sales	\$ 4,905,944	\$ 7,142,225	\$ -	\$ 1,994,415	\$3,209,883	\$ 17,252,467
Penalties, surcharges and fees	67,789	245,439	-	12	39,302	352,542
Total operating revenues	<u>4,973,733</u>	<u>7,387,664</u>	<u>-</u>	<u>1,994,427</u>	<u>3,249,185</u>	<u>17,605,009</u>
<b>Operating expenses:</b>						
Water pumps and tanks	209,785	-	-	17,580	-	227,365
Depreciation	218,676	-	-	35,061	-	253,737
Water intake and treatment	2,019,106	-	-	1,311,524	-	3,330,630
Depreciation	178,913	-	-	109,488	-	288,401
Water transmission	1,187,581	-	-	20,947	-	1,208,528
Depreciation	495,681	-	-	39,155	-	534,836
Wastewater pumping stations	-	1,081,860	-	-	137,033	1,218,893
Depreciation	-	312,153	-	-	51,028	363,181
Wastewater lines and collections	-	562,369	-	-	-	562,369
Depreciation	-	565,920	-	-	144,189	710,109
Wastewater pretreatment and treatment	-	2,239,297	-	-	1,897,850	4,137,147
Depreciation	-	388,265	-	-	390,214	778,479
Stormwater	-	-	1,409,219	-	-	1,409,219
Depreciation	-	-	396,822	-	-	396,822
Total operating expenses	<u>4,309,742</u>	<u>5,149,864</u>	<u>1,806,041</u>	<u>1,533,755</u>	<u>2,620,314</u>	<u>15,419,716</u>
Operating income (loss)	<u>663,991</u>	<u>2,237,800</u>	<u>(1,806,041)</u>	<u>460,672</u>	<u>628,871</u>	<u>2,185,293</u>
<b>Non-operating income (expense):</b>						
Investment income	31,150	-	-	-	-	31,150
Loss on sale/impairment of assets	(263,957)	-	-	-	-	(263,957)
Bond issuance costs	-	-	-	-	-	-
Miscellaneous	25,479	-	-	-	-	25,479
Interest expense	(173,558)	(694,569)	(213,954)	(74,683)	(56,815)	(1,213,579)
Amortization	(6,767)	(10,679)	(5,984)	-	(640)	(24,070)
Total non-operating income (expense)	<u>(387,653)</u>	<u>(705,248)</u>	<u>(219,938)</u>	<u>(74,683)</u>	<u>(57,455)</u>	<u>(1,444,977)</u>
Change in net position before contributions and transfers	<u>\$ 276,338</u>	<u>\$ 1,532,552</u>	<u>\$ (2,025,979)</u>	<u>\$ 385,989</u>	<u>\$ 571,416</u>	<u>\$ 740,316</u>

See independent auditors' report.

**Henderson Water Utility –  
City of Henderson, Kentucky - Water and Sewer Commission  
Supplemental Schedule of Revenues, Expenses, and Changes in Net Position by Division  
For the fiscal year ended June 30, 2014**

	<u>North Water</u>	<u>North Wastewater</u>	<u>Storm water</u>	<u>South Water</u>	<u>South Wastewater</u>	<u>Total</u>
<b>Operating revenues:</b>						
Sales	\$ 4,896,587	\$ 6,984,492	\$ -	\$ 2,565,923	\$2,892,609	\$ 17,339,611
Penalties, surcharges and fees	76,507	256,851	-	495	58,876	392,729
Total operating revenues	<u>4,973,094</u>	<u>7,241,343</u>	<u>-</u>	<u>2,566,418</u>	<u>2,951,485</u>	<u>17,732,340</u>
<b>Operating expenses:</b>						
Water pumps and tanks	143,830	-	-	24,694	-	168,524
Depreciation	211,380	-	-	35,237	-	246,617
Water intake and treatment	1,856,536	-	-	1,877,003	-	3,733,539
Depreciation	161,179	-	-	137,871	-	299,050
Water transmission	1,675,353	-	-	8,889	-	1,684,242
Depreciation	518,545	-	-	38,927	-	557,472
Wastewater pumping stations	-	1,448,492	-	-	128,328	1,576,820
Depreciation	-	133,449	-	-	58,382	191,831
Wastewater lines and collections	-	690,821	-	-	-	690,821
Depreciation	-	434,059	-	-	179,264	613,323
Wastewater pretreatment and treatment	-	2,361,363	-	-	1,539,117	3,900,480
Depreciation	-	381,805	-	-	422,678	804,483
Stormwater	-	-	397,699	-	-	397,699
Depreciation	-	-	290,555	-	-	290,555
Total operating expenses	<u>4,566,823</u>	<u>5,449,989</u>	<u>688,254</u>	<u>2,122,621</u>	<u>2,327,769</u>	<u>15,155,456</u>
Operating income (loss)	<u>406,271</u>	<u>1,791,354</u>	<u>(688,254)</u>	<u>443,797</u>	<u>623,716</u>	<u>2,576,884</u>
<b>Non-operating income (expense):</b>						
Investment income	33,042	(3,561)	-	-	-	29,481
Loss on sale/impairment of assets	42,095	-	-	-	-	42,095
Miscellaneous	18,279	2,760	-	-	-	21,039
Interest expense	(161,164)	(657,306)	(223,440)	(46,822)	(60,239)	(1,148,971)
Amortization	(10,497)	(18,304)	(6,099)	-	(640)	(35,540)
Total non-operating income (expense)	<u>(78,245)</u>	<u>(676,411)</u>	<u>(229,539)</u>	<u>(46,822)</u>	<u>(60,879)</u>	<u>(1,091,896)</u>
Change in net position before contributions and transfers	<u>\$ 328,026</u>	<u>\$ 1,114,943</u>	<u>\$ (917,793)</u>	<u>\$ 396,975</u>	<u>\$ 562,837</u>	<u>\$ 1,484,988</u>

See independent auditors' report.

**Henderson Water Utility- City of Henderson, Kentucky- Water and Sewer Commission  
Schedule of the Commission's Proportionate Share of the Net Pension Liability  
County Employees' Retirement system  
Last 10 Fiscal Years\***

	<b>2015</b>
Commission's proportion of the net pension liability	0.154670%
Commission's proportionate share of the net pension liability	\$ 5,018,000
Commission's covered-employee payroll	\$ 3,707,810
Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll	135.34%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

\*Information for years prior to 2015 is not available.

**Henderson Water Utility- City of Henderson, Kentucky - Water and Sewer Commission  
Schedule of Commission Contributions  
County Employees' Retirement system  
Last 10 Fiscal Years\***

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 655,170	\$ 670,271	\$ 713,923	\$ 908,102
Contributions in relation to the statutorily required contribution	<u>(655,170)</u>	<u>(670,271)</u>	<u>(713,923)</u>	<u>(908,102)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's covered-employee payroll	\$ 3,707,810	\$ 3,548,285	\$ 3,651,780	\$ 4,789,568
Contributions as a percentage of covered-employee payroll	17.67%	18.89%	19.55%	18.96%

\*Information for years prior to 2012 is not available.



**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***

Board of Commissioners  
Henderson Water Utility - City of Henderson, Kentucky - Water and Sewer Commission  
Henderson, 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 the Henderson Water Utility - City of Henderson, Kentucky - Water and Sewer Commission, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Henderson, Kentucky - Water and Sewer Commission's basic financial statements and have issued our report thereon dated November 03, 2015.

***Internal Control Over Financial Reporting***

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Henderson Water Utility - City of Henderson, Kentucky - Water and Sewer Commission'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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Myriad CPA Group, LLC".

Myriad CPA Group, LLC  
Henderson, Kentucky  
November 03, 2015