LARUE COUNTY WATER DISTRICT NO. 1

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2015 AND 2014

LARUE COUNTY WATER DISTRICT NO. 1

CONTENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Stiles, Carter & Associates
CERTIFIED PUBLIC ACCOUNTANTS

American Institute of CPAs
Kentucky Society of CPAs

Board of Commissioners
Larue County Water District No. 1
Buffalo, Kentucky

We have audited the basic financial statements of Larue County Water District No. 1 as of and for the year ended December 31, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted audited standards and *Governmental Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated January 13, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Larue County Water District No. 1 are described in Note 1 to the financial statements. The District adopted GASB Statements 68, 69, 70 and 71 during the year and the application of existing policies was not changed during the year ended December 31, 2015. We noted no transactions entered into by the governmental unit during the year for which there was a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The District's most sensitive estimates the allowance for doubtful accounts, depreciation and pension liability

Management's estimate of the allowance for doubtful accounts is based on historical collections. Management's estimate of depreciation and CERS pension amounts is based on expected future useful lives of assets and actuarial reports. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Emphasis of a Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the District adopted Governmental Accounting Standards Board Statement 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, Statement 69, Government Combinations and Disposals of Government Operations, Statement 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees and Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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 the placing the basic financial statements in appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of the net pension liability on page 21 and schedule of contributions on page 22 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 an opinion on the financial statements that collectively comprise the Larue County Water District No. 1's basic financial statements. Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules I and II are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules I and II are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2016, on our consideration of Larue County Water District No. 1'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 Larue County Water District No. 1's internal control over financial reporting and compliance.

Stiles, Carter + Associates

Certified Public Accountants
Elizabethtown, Kentucky
June 22, 2016

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF NET POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 236,789	$ 201,980
Unrestricted investments	181,478	180,705
Accounts receivable, net	95,531	96,189
Unbilled receivables	65,000	65,000
Prepaid loan payment	14,532	14,532
Prepaid insurance	15,504	9,956
Materials and supplies	34,058	34,058
TOTAL CURRENT ASSETS	642,892	602,420
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	564,149	561,611
Restricted investments	945,102	935,773
Non-depreciable capital assets	60,580	60,580
Depreciable capital assets, net of accumulated depreciation	8,879,805	9,076,550
TOTAL NONCURRENT ASSETS	10,449,636	10,634,514
TOTAL ASSETS	11,092,528	11,236,934
DEFERRED OUTFLOWS OF RESOURCES	132,147	17,394
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 31,626	$ 34,905
Payroll and other taxes payable	5,408	5,616
Accrued vacation	32,133	28,964
Accrued interest	284	284
Customer deposits	17,788	17,100
Note and bond payable	88,500	88,083
TOTAL CURRENT LIABILITIES	175,739	174,952
NONCURRENT LIABILITIES:		
Customer deposits	100,800	96,898
Net pension liability- CERS	525,737	366,000
Note and bond payable	2,625,630	2,714,940
TOTAL NONCURRENT LIABILITIES	3,252,167	3,177,838
TOTAL LIABILITIES	3,427,906	3,352,790
DEFERRED INFLOWS OF RESOURCES	-	41,000
NET POSITION		
Net investment in capital assets	6,165,675	6,273,528
Restricted net position	168,104	159,878
Unrestricted	1,462,990	1,427,132
TOTAL NET POSITION	$ 7,796,769	$ 7,860,538

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

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUES:		
Water sales	$ 1,440,186	$ 1,463,202
Other operating income	14,826	24,802
TOTAL OPERATING REVENUES	1,455,012	1,488,004
OPERATING EXPENSES:		
Water purchased	409,759	411,465
Power purchased	24,173	27,753
Meter labor and expense	306,611	263,563
Bad debt	4,262	2,227
Repairs and maintenance	79,785	77,406
General and administrative expenses	272,942	251,151
Depreciation	361,222	348,912
TOTAL OPERATING EXPENSES	1,458,754	1,382,477
OPERATING INCOME	(3,742)	105,527
NON-OPERATING REVENUES (EXPENSES):		
Interest income	11,909	6,959
Gain on disposal of capital assets	-	3,250
Interest expense on long-term debt	(100,336)	(103,907)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(88,427)	(93,697)
CAPITAL CONTRIBUTIONS	28,400	16,850
CHANGE IN NET POSITION	(63,769)	28,680
NET POSITION, beginning of year, as restated	7,860,538	7,831,858
NET POSITION, end of year	$ 7,796,769	$ 7,860,538

The accompanying notes are integral part of these financial statements.

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 1,455,670	$ 1,488,930
Payments to suppliers	(682,690)	(703,287)
Payments to employees	(407,873)	(356,671)
NET CASH PROVIDED BY OPERATING ACTIVITIES	365,107	428,972
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	(88,083)	(81,488)
Acquisition and construction of capital assets	(165,118)	(218,314)
Sale of capital assets	-	4,000
Capital contributions	28,400	16,850
Prepayments of long-term debt	(14,532)	(14,532)
Interest on long-term debt	(100,336)	(103,907)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(339,669)	(397,391)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	11,909	6,960
NET CASH PROVIDED BY INVESTING ACTIVITIES	11,909	6,960
NET INCREASE IN CASH AND CASH EQUIVALENTS	37,348	38,541
CASH AND CASH EQUIVALENTS, beginning of year	763,591	725,050
CASH AND CASH EQUIVALENTS, end of year	$ 800,939	$ 763,591

	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ (3,742)	$ 105,527
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	361,222	348,912
Provision for bad debts	4,262	2,227
GASB 68 pension expense	3,984	(7,680)
Decrease in accounts receivable	658	9,528
(Increase) in unbilled receivables	-	(2,189)
(Increase) in prepaid insurance	(5,548)	-
Decrease(increase) in materials and supplies	-	14,372
Increase (decrease) in accounts payable	(3,279)	(4,259)
Increase (decrease) in customer deposits	4,590	(31,921)
(Decrease) increase in accrued taxes payable	(208)	(10,372)
Increase in accrued vacation	3,169	4,827
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 365,108	$ 428,972
SCHEDULE OF NON-CASH TRANSACTIONS:		
CERS Pensions	$ 3,984	$ (7,680)

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

NOTES TO FINANCIAL STATEMENTS

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Larue County Water District No. 1 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Larue County, Kentucky.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity,* as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL STATEMENT AMOUNTS

1. Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2015 and 2014, accounts receivable was stated net of an allowance for uncollectible accounts of $10,500 and $10,500. Bad debt expense for each of the years ended December 31, 2015 and 2014 was $4,262 and $2,227. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.

2. Materials and Supplies – Materials and supplies are composed of items used for the construction of capital projects.

3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.

4. Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

   Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	Years
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-30

5. Amortization – Bond discounts and premiums are being amortized using the straight-line method over the life of each respective bond issue.

6. Cash Equivalents – For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

7. Compensation for Future Absences - Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Claims and Judgments – These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

9. Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

10. Capital Contributions – Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

11. Long-term obligations are reported at face value, net of applicable premiums and discounts.

12. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

13. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.

14. Net Position – Net position is divided into three components:

    a. Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.

    b. Restricted net position – consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.

    c. Unrestricted – all other net position is reported in this category.

15. Use of Estimates – The preparation of financial assets in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated net position, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

16. Restatement – During the year ended December 31, 2015, the District adopted the provisions of GASB Statement 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. The District presents comparative financial statements so the restatement was made through the December 31, 2014 amounts. The effect of the restatement was to record deferred outflows of $17,394 deferred inflows of $41,000, a net pension liability of $366,000, a change to beginning net position of $389,605 and a decrease in pension expense of $7,680 which was reflected through the change in net position.

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17. Pensions – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

18. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles
In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27.* GASB 68, as amended by GASB 71 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement was adopted during the fiscal year ended December 31, 2015 and required a restatement to net position.

In March 2014, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement was adopted during the fiscal year ended December 31, 2015 and did not have an impact on the District's financial statements.

Recently Issued Accounting Pronouncements
In January 2014, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations.* GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2014. The statement was adopted during the year and there was no effect on the financial statements.

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application.* GASB 69 establishes accounting and financial reporting standards related to fair value measurements. This statement is effective for periods beginning after June 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2015, the GASB issued Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE 2 – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2015 and 2014, $763,219 and $726,541 of the District's bank balance of $1,957,153 and $1,1916,852 was exposed to custodial credit risk. At December 31, 2015 and 2014, $1,568 and $-0- of the amount exposed to custodial risk were not collateralized. The remaining amount was collateralized by securities held by the pledging financial institution.

NOTE 3 – RESTRICTED CASH

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2015 and 2014:

Restricted For	December 31, 2015	December 31, 2014
Debt Service	$ 168,104	$ 159,878
Reserve & Depreciation	1,341,147	1,337,506
	$ 1,509,251	$ 1,497,384

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 4 – CAPITAL ASSETS

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2015, is summarized as follows:

	Balance 12/31/2014	Additions	Retirements	Balance 12/31/2015
Non-Depreciable Assets:				
Land and land rights	$ 60,580	$ -	$ -	$ 60,580
Depreciable Assets:				
Structures and improvements	269,348	2,155	-	271,503
Electric pumping equipment	197,665	-	-	197,665
Water Treatment Equipment	300	-	-	300
Standpipes and tanks	2,446,511	-	-	2,446,511
Transmission and distribution mains	9,575,378	19,621	-	9,594,999
Services	938,839	-	-	938,839
Hydrants	24,035	-	-	24,035
Office furniture and fixtures	92,412	-	-	92,412
Transportation equipment	129,932	-	-	129,932
Tool and shop equipment	95,080	-	-	95,080
Meters & Installation	460,037	142,701	(49,098)	553,640
Total capital assets being depreciated	14,229,537	164,477	(49,098)	14,344,916
Less accumulated depreciation for:				
Structures and improvements	(139,146)	(11,363)	-	(150,509)
Electric pumping equipment	(185,639)	(2,033)	-	(187,672)
Water Treatment Equipment	(300)	-	-	(300)
Standpipes and tanks	(532,300)	(55,502)	-	(587,802)
Transmission and distribution mains	(3,259,755)	(200,893)	-	(3,460,648)
Services	(544,457)	(27,160)	-	(571,617)
Hydrants	(19,226)	(178)	-	(19,404)
Office furniture and fixtures	(84,056)	(1,734)	-	(85,790)
Transportation equipment	(81,051)	(15,568)	-	(96,619)
Tool and shop equipment	(77,951)	(5,834)	-	(83,785)
Meters & Installation	(229,106)	(40,957)	49,098	(220,965)
Total accumulated depreciation	(5,152,987)	(361,222)	49,098	(5,465,111)
Total capital assets being depreciated, net	9,076,550	(196,745)	-	8,879,805
Capital assets, net	$ 9,137,130	$ (196,745)	$ -	$ 8,940,385

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Plant and equipment costs and accumulated depreciation at December 31, 2014, is summarized as follows:

	Balance 12/31/2013	Additions	Retirements	Balance 12/31/2014
Non-Depreciable Assets:				
Land and land rights	$ 60,580	$ -	$ -	$ 60,580
Depreciable Assets:				
Structures and improvements	253,455	15,893	-	269,348
Electric pumping equipment	186,562	11,103	-	197,665
Water Treatment Equipment	300	-	-	300
Standpipes and tanks	2,446,511	-	-	2,446,511
Transmission and distribution mains	9,483,268	92,110	-	9,575,378
Services	938,839	-		938,839
Hydrants	24,035	-	-	24,035
Office furniture and fixtures	83,741	8,671		92,412
Transportation equipment	119,640	22,464	(12,172)	129,932
Tool and shop equipment	110,080	-	(15,000)	95,080
Meters & Installation	391,962	68,075	-	460,037
Total capital assets being depreciated	14,038,393	218,316	(27,172)	14,229,537
Less accumulated depreciation for:				
Structures and improvements	(128,709)	(10,437)	-	(139,146)
Electric pumping equipment	(184,716)	(923)	-	(185,639)
Water Treatment Equipment	(300)	-	-	(300)
Standpipes and tanks	(476,799)	(55,501)	-	(532,300)
Transmission and distribution mains	(3,058,466)	(201,289)	-	(3,259,755)
Services	(518,203)	(26,254)	-	(544,457)
Hydrants	(19,048)	(178)	-	(19,226)
Office furniture and fixtures	(83,333)	(723)		(84,056)
Transportation equipment	(78,416)	(14,807)	12,172	(81,051)
Tool and shop equipment	(86,059)	(6,142)	14,250	(77,951)
Meters & Installation	(196,449)	(32,657)	-	(229,106)
Total accumulated depreciation	(4,830,498)	(348,911)	26,422	(5,152,987)
Total capital assets being depreciated, net	9,207,895	(130,595)	(750)	9,076,550
Capital assets, net	$ 9,268,475	$ 87,721	$ (750)	$ 9,137,130

During the years ended December 31, 2015 and 2014, the District capitalized $-0- and $-0- of interest.

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 5 – LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds and notes payable authorized under Kentucky Revised Statutes. All assets of the District are pledged as collateral for these bonds. Bond maturities and Sinking Fund requirements in each of the next five years and in subsequent five year increments are as follows:

Year	Note and Bond Payable Principal	Note and Bond Payable Interest	Sinking Fund Requirements
2016	88,500	98,392	186,892
2017	93,083	96,341	189,424
2018	94,000	93,359	187,359
2019	98,583	90,279	188,862
2020	103,583	87,919	191,502
2021-2025	570,832	380,361	951,193
2026-2030	641,917	262,550	904,467
2031-2035	659,332	134,283	793,615
2036-2040	247,753	35,304	283,057
2041-2045	42,500	11,840	54,340
2046-2050	50,000	5,584	55,584
2051	10,000	275	10,275
Total	$ 2,700,083	$ 1,296,487	$ 3,996,570

Changes in long-term obligations during the year ended December 31, 2015 were:

	Balance 12/31/2014	Additions	Reductions	Balance 12/31/2015	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	$ 241,500	$ -	$ (3,500)	$ 238,000	$ 3,500
Note Payable	2,546,666	-	(84,583)	2,462,083	85,000
Unamortized Premium	14,857	-	(810)	14,047	-
Total	2,803,023	-	(88,893)	2,714,130	88,500
Other Liabilities:					
Customer Deposits	113,998	4,590	-	118,588	17,788
Long-Term Liabilities	$ 2,917,021	$ 4,590	$ (88,893)	$ 2,832,718	$ 106,288

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term obligations during the year ended December 31, 2014 were:

	Balance 12/31/2013	Additions	Reductions	Balance 12/31/2014	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	$ 245,000	$ -	$ (3,500)	$ 241,500	$ 3,500
Note Payable	2,624,615	-	(77,949)	2,546,666	84,583
Unamortized Premium	15,668	-	(811)	14,857	-
Total	2,885,283	-	(82,260)	2,803,023	88,083
Other Liabilities:					
Customer Deposits	145,919	-	(31,921)	113,998	17,100
Long-Term Liabilities	$ 3,031,202	$ -	$ (114,181)	$ 2,917,021	$ 105,183

Information relating to the outstanding bond and notes is summarized below:

Date of Issue	Interest Rate	Original Amount of Each Issue	Bonds and Notes Payable Outstanding December 31, 2015	2014
2012 Bond Series A	2.75%	$ 245,000	$ 238,000	$ 241,000
2012 Note Series A	2.0 - 3.625	2,680,000	2,462,083	2,546,666

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

Revenue Fund
All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

Bond Reserve Fund
This fund shall receive $1,605, a monthly rental, until an amount of $204,300 is reached. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. This account was fully funded at December 31, 2015 and 2014. The bond and interest redemption funds and bond reserve fund are maintained together in a single bank account and certificates of deposit.

Operation and Maintenance Fund
This fund receives, on a monthly basis, 90% of the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Reserve Fund.

(Continue next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Depreciation Fund
This fund receives, on a monthly basis, 10% of the remaining balance in the Revenue Fund after the above transfers have been made and the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment. This account is funded until it reaches a balance of $25,500. This account was fully funded at December 31, 2015 and 2014.

Full-time employees of the District are entitled to paid vacation and paid personal days depending upon length of service. Personal days must be used within the period earned. Vacation days may be carried forward.

NOTE 6 - RETIREMENT PLAN

Plan Description
The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial reports that include financial statements and required supplementary information. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided
The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Contributions
For the calendar year ended December 31, 2015, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The District's contractually required contribution rate for the calendar year ended December 31, 2015, was 17.67 percent of creditable compensation from January 1 to June 30 and 17.06 percent of creditable compensation from July 1 to December 31. Contributions to the plan from the District were $51,625.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 6 – RETIREMENT PLAN (CONTINUED)

At December 31, 2015, the District reported a liability of $525,737 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all, actuarially determined. At June 30, 2015, the District's proportion was 0.011282 percent, which was an increase of .000946 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the District recognized pension expense of $55,609. At December 31, 2015, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 4,369	$ -
Changes in actuarial assumptions	53,015	-
Difference between projected and actual investment earnings	4,713	-
Changes in proportion	24,394	-
Changes in proportionate share of contributions	27,180	-
Contributions paid to CERS subsequent to the measurement date	18,476	-
	$ 132,147	$ -

The amount reported as deferred outflows for District contributions subsequent to the measurement date of $18,476 will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Changes in proportionate share of contributions reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2016	$ 6,795
2017	6,795
2018	6,795
2019	6,795
	$ 27,180

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

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NOTE 6 – RETIREMENT PLAN (CONTINUED)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash	2%	-0.25%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 7.5%. 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 7.5%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 6 – RETIREMENT PLAN (CONTINUED)

Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liablility	671,180	525,737	401,195

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

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

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	10	0%
15-19	7	25%
10-14	5	50%
4-9	2	75%
Less than 4	0	100%

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

NOTE 7 - MAJOR SUPPLIERS

The District purchases water for resale from approximately six suppliers with Hodgenville Waterworks, Bardstown Water District and Green River Valley Water District accounting for approximately ninety percent of the water supplied. Inability to obtain water from any of these suppliers could have a materially adverse effect on the District.

NOTE 8 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2015 and 2014:

Source	2015	2014
Tap fees	$ 28,400	$ 16,850

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District was insured for workers' compensation, general liability coverage under a retrospectively rated commercial policy.

REQUIRED SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

December 31, 2015

Last 10 Years *

		2015
Proportion of the net pension liability		0.012228%
Proportionate share of the net pension liability	$	525,737
Covered - employee payroll	$	302,077
Proportionate share of the net pension liability as percentage of covered payroll		174.0%
Plan fiduciary net position as a percentage of the total pension liability		59.97%

* Calendar year 2015 was the first year of implementation, therefore, only one year is shown.

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF CONTRIBUTIONS TO CERS

December 31, 2015

Last 10 Years *

		2015
Contractually required contribution (actuarially determined)	$	36,508
Contribution in relation to the actuarially determined contributions		36,508
Contribution deficiency (excess)	$	-
Covered employee payroll	$	302,077
Contributions as a percentage of covered employee payroll		12.09%

* Calendar year 2015 was the first year of implementation, therefore, only one year is shown.

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2015

Changes of benefit terms. There were no changes in benefit terms.

Changes of assumptions. The following changes in assumption s were made:

»»The assumed investment rate of return was decreased from 7.75% to 7.5%.
»»The assumed rate of inflation was reduced from 3.5% to 3.25%.
»»The assumed rate of wage inflation was reduced from 1% to .75%.
»»Payroll growth assumption was reduced from 4.5% to 4%.
»»The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
»»For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
»»Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTS

DECEMBER 31, 2015

	2012 SERIES A BOND PAYABLE		2012 SERIES F NOTE PAYABLE	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2016	3,500	6,545	85,000	91,847
2017	3,500	6,449	89,583	89,892
2018	4,000	6,353	90,000	87,006
2019	4,000	6,243	94,583	84,036
2020	4,000	6,133	99,583	81,786
2021	4,000	6,023	100,000	77,662
2022	4,500	5,912	104,583	73,362
2023	4,500	5,789	109,583	70,188
2024	4,500	5,665	114,583	66,857
2025	5,000	5,541	119,583	63,362
2026	5,000	5,404	124,583	58,340
2027	5,000	5,266	129,583	52,983
2028	5,500	5,129	139,167	47,411
2029	5,500	4,978	107,917	41,427
2030	5,500	4,826	114,167	36,786
2031	6,000	4,675	119,583	31,877
2032	6,000	4,428	120,000	26,735
2033	6,000	4,345	124,583	22,537
2034	6,500	4,180	129,583	18,127
2035	6,500	4,001	134,583	13,378
2036	7,000	3,823	89,167	8,278
2037	7,000	3,630	39,167	4,792
2038	7,500	3,438	39,586	3,255
2039	7,500	3,231	40,000	1,701
2040	7,500	3,025	3,333	131
2041	8,000	2,819		
2042	8,000	2,599		
2043	8,500	2,379		
2044	9,000	2,145		
2045	9,000	1,898		
2046	9,500	1,650		
2047	9,500	1,389		
2048	10,000	1,128		
2049	10,500	853		
2050	10,500	564		
2051	10,000	275		
	$ 238,000	$ 142,731	$ 2,462,083	$ 1,153,756

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31, 2015	YEARS ENDED DECEMBER 31, 2014
Retirement expense	$ 55,609	$ 42,503
Insurance - health	49,637	47,753
Auto expense	28,780	38,294
Office supplies and postage	28,488	23,681
Payroll expense	21,080	18,961
Other general and administrative	31,161	24,512
Insurance - general liability	12,303	13,818
Professional fees	12,575	11,775
Insurance - workmens' compensation	13,887	12,430
Commissioners' salaries	10,800	10,800
Regulatory commission expense & other taxes	7,517	4,512
Training	1,105	2,112
	$ 272,942	$ 251,151

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2015

WATER COMMISSIONERS
John Detre – Chairman
Pat Eastridge – Secretary/Treasurer
Bobby Garrison – Member

ATTORNEY
Stoll, Keenon, Ogden, PLLC

APPROVING BOND COUNSEL
Rubin & Hays - Louisville, Kentucky

CALENDAR YEAR
January 1 to December 31

INTERNAL CONTROL AND FISCAL COMPLIANCE

Chris R. Carter, CPA
Ann M. Fisher, CPA
Scott Kisselbaugh, CPA
Brian S. Woosley, CPA

SCA
Stiles, Carter & Associates
Certified Public Accountants

American Institute of CPAs
Kentucky Society of CPAs

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

Board of Commissioners
Larue County Water District No. 1
Buffalo, 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 Larue County Water District No. 1, as of and for the year ended December 31, 2015, and have issued our report thereon dated June 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Larue County Water District No. 1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Larue County Water District No. 1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiencies described in items 2015-001, 2015-002, and 2015-003 in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Larue County Water District No. 1's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of 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.*

2901 Ring Road East, P.O. Box 622 · Elizabethtown, KY 42702-0622 / Phone 270-769-6371 · Fax 270-765-7934 · www.scacpa.com

Larue County Water District No.1's Response to Findings

Larue County Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Larue County Water District No. 1's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stiles, Carter + Associates
Certified Public Accountants
Elizabethtown, Kentucky
June 22, 2016

LARUE COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

REFERENCE NUMBER 2015-001 PREPARATION OF FINANCIAL STATEMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

Cause: The District has financial personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Management Response: The District has made strides in this area and is continuously working to obtain the goal of current personnel being able to adequately prepare the financial statements.

REFERENCE NUMBER 2015-002 FINANCIAL STATEMENT PRESENTATION

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

Cause: The District has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Management Response: It would be beneficial to have financial training.

REFERENCE NUMBER 2015-003 SEGREGATION OF DUTIES

Criteria: The District's management is responsible for establishing and maintaining proper segregation of duties. In order to maintain proper segregation of duties District requires two signatures on checks for certain disbursements. Due to the limited number of personnel the District requires the signature of a commissioner on said checks along with the District's management.

Condition: As part of the audit we noted there were blank checks signed by a commissioner kept at the District. The checks contained only the signature of the commissioner.

Cause: The District had blank checks signed by commissioner so that items could be paid in the commissioner's absence.

Effect: The signature policy was not followed which could result in unapproved disbursements.

Recommendation: We recommend that checks be signed by the commissioner after the date; amount and vendor fields have been completed. Additionally, the invoice that supports the check should be present with the check at the time the commissioner signs the check.

Management Response: Management will bring this item before the board for further review.