

MAGOFFIN COUNTY
WATER DISTRICT

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
for the year ended December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Magoffin County Water District
Salyersville, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Magoffin County Water District as of and for the year ended December 31, 2015, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Magoffin County Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

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.

Management has elected to omit the Management's Discussion & Analysis which is required by the Governmental Accounting Standards Board.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Magoffin County Water District, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Magoffin County Water District's basic financial statements. The comparative statement of revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of the water district's proportionate share of net pension liability, schedule of water district contributions and the comparative statement of revenues and expenses 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, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 05, 2016, on our consideration of the Magoffin County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Magoffin County Water District's internal control over financial reporting and compliance.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

April 05, 2016

This report contains 18 pages.

Magoffin County Water District
Statement of Net Position
Proprietary Fund
December 31, 2015

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 473,651
Cash and cash equivalents - restricted (note 7)	264,117
Accounts receivable - net of allowance for doubtful accounts (note 1)	121,765
Prepaid expenses	<u>15,534</u>
Total Current Assets	<u>875,067</u>
Noncurrent Assets	
Capital assets: (note 5)	
Land	13,620
Plant, equipment and lines	14,060,153
Accumulated depreciation	<u>(4,849,537)</u>
Total Noncurrent Assets	<u>9,224,236</u>
Deferred Outflows of Resources	<u>57,607</u>
Total Assets & Deferred Outflows of Resources	<u><u>\$ 10,156,910</u></u>

LIABILITIES

Current Liabilities	
Accrued expenses	\$ 126,885
Bonds/loans payable (note 2)	65,000
Payable from restricted assets	<u>124,682</u>
Total Current Liabilities	<u>316,567</u>
Noncurrent Liabilities	
Bonds/loans payable (note 2)	1,650,000
Accrued pension	<u>397,000</u>
Total Noncurrent Liabilities	<u>2,047,000</u>
Deferred Inflows of Resources	<u>44,000</u>
Total Liabilities & Deferred Inflows of Resources	<u>2,407,567</u>

NET POSITION

Net investment in capital assets	7,509,236
Restricted	139,435
Unrestricted	<u>100,672</u>
Total Net Position	<u><u>\$ 7,749,343</u></u>

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

Magoffin County Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended December 31, 2015

Revenues	
User fees	\$ 1,236,389
Other water revenue	<u>86,130</u>
Total Revenues	<u>1,322,519</u>
Expenses	
Water purchased	550,964
Salaries	341,712
Office expense	53,466
Insurance	32,587
Taxes	60,451
Rental expense	8,700
Legal & accounting	4,400
Employee benefits	71,941
Miscellaneous	6,900
Electric pumping expense	41,357
Depreciation	342,166
Supplies	47,150
Utilities	10,612
Water testing	4,869
Bad debt	958
Truck expense	<u>24,985</u>
Total Operating Expenses	<u>1,603,218</u>
Operating Income (Loss)	<u>(280,699)</u>
Nonoperating Revenues (Expenses)	
Tap fees	22,030
Debt issuance costs	(33,117)
Interest income	3,018
Interest expense	<u>(66,634)</u>
Net Nonoperating Revenues (Expenses)	<u>(71,690)</u>
Change in Net Position	(352,389)
Total Net Position - beginning	8,505,302
Prior period adjustment	<u>(403,570)</u>
Total Net Position - ending	<u><u>\$ 7,749,343</u></u>

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

Magoffin County Water District
Statement of Cash Flows
Proprietary Fund Type
December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 1,310,704
Cash paid to employees	(341,712)
Cash paid for general and administrative expenses	<u>(862,394)</u>
Net Cash provided by operating activities	<u>106,598</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	2,767
Customer deposits	<u>7,598</u>
Net Cash provided by investing activities	<u>10,365</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Bond payments	(43,700)
Gain on sale of equipment	3,013
Tap fees	22,030
Purchase of capital assets	(53,096)
Interest paid	<u>(66,634)</u>
Net Cash used in capital and financing activities	<u>(138,387)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,424)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>758,941</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 737,517</u></u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (280,699)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(increase) in prepaid expenses	(624)
depreciation	342,166
(increase) in deferred outflows of resources	(57,607)
increase in deferred inflows of resources	44,000
(increase) in accounts receivable	(11,815)
increase in accounts payable	<u>71,177</u>
Net cash provided by operating activities	<u><u>\$ 106,598</u></u>

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

MAGOFFIN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

The Magoffin County Water District is a water utility which services areas of Magoffin County and the State Road area of Floyd County. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created in 1956. The District began operations in 1956. The District is subject to the regulatory authority of the Kentucky Public Service Commission pursuant to KRS 278.040.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Magoffin County Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund until a balance of \$108,660 is attained. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside \$150,033 into this fund at December 31, 2015.

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2015 was \$-0-. The District had set aside \$0 as of December 31, 2015.

Enterprise Funds

An enterprise fund distinguishes 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 District's principal ongoing operations. The principal operating revenues of the District are operating grants and tenant rental revenue. Operating expenses of the District include the cost of producing the revenue and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) is segmented into net investment in capital assets, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use unrestricted resources first, and then restricted resources as they are needed.

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase.

Deposits

The District considers all highly liquid investments with a maturity date of twelve months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents. At December 31, 2015, the carrying amount of the District's deposits was \$737,768 and the bank balance was \$652,671. Of the bank balance 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Capital Assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Water lines, tanks	50 years
Equipment	10 years

The District's capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized: all others are expensed.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

Accounts Receivable

The receivable reflected in the statements in the amount of \$121,765 is net of allowance for uncollectible in the amount of \$14,774.

Use of Estimates

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

Pensions

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 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2015, two separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Lender – Kentucky Rural Water Finance Corporation (KRWFC)

Balance of loan - \$1,695,000

Rate – 2.250%

Principle due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Schedule of future payments:

	Principal	Interest	Trustee Fees	Total Payment
2016	\$ 65,000	\$ 51,213	\$ 450	\$ 116,663
2017	65,000	49,750	450	115,200
2018	70,000	48,231	450	118,681
2019	70,000	46,656	450	117,106
2020	70,000	45,081	450	115,531
2021-2025	380,000	194,556	2,250	576,806
2026-2030	405,000	129,175	2,250	536,425
2031-2035	345,000	68,456	2,250	415,706
2036-2040	200,000	17,769	2,150	219,919
2041	25,000	453	350	25,803
Total	\$ 1,695,000	\$ 651,340	\$ 11,500	\$ 2,357,840

The District borrowed \$20,000 from the Magoffin County Fiscal Court on August 14, 2008 to extend the water line at the Blaze Creek Branch off of Gun creek Road.

The following is a summary of changes in long-term obligations for the year:

	Outstanding 1/1/2015	Issued	Retired	Outstanding 12/31/2015	Due Within One Year
Rural Development	\$ 1,651,300	\$ -	\$ 1,651,300	\$ -	\$ -
KRWFC	-	1,695,000	-	1,695,000	65,000
Fiscal Court	20,000	-	-	20,000	-
Total	\$ 1,671,300	\$ 1,695,000	\$ 1,651,300	\$ 1,715,000	\$ 65,000

Note 3 – Defined Benefit Pension Plan

General Information About the Pension Plan

Plan description - Regular, full-time, employees of the Water District are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested as a whole each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefit terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky Retirement System issues a publicly available financial report that can be obtained on their website.

Benefits provided - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the Legislature.

Contributions - Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The Water District's contractually required contribution rate for the year ended December 31, 2015 was 17.76%/17.06% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Water District were \$52,177 for the year ended December 31, 2015.

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

At December 31, 2015, the Water District reported a liability of \$397,000 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 Water District's portion of the net pension liability was based on the Water District's proportionate share of retirement contributions for the fiscal year ended June 30, 2014. At June 30, 2014 the Water District's proportionate share was 0.012223%.

For the year ended December 31, 2015, the Water District recognized pension expense of \$32,000. At December 31, 2015, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -0-	\$ 44,000
Water District's contributions subsequent to the measure date	<u>57,607</u>	<u>-0-</u>
Total	\$ 57,607	\$ 44,000

\$57,607 reported as deferred outflows of resources related to pensions resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2016	\$ (11,521)
December 31, 2017	(11,521)
December 31, 2018	(11,521)
December 31, 2019	(11,522)
December 31, 2020	(11,522)
Thereafter	<u>-0-</u>
Total	\$ (57,607)

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 investment expense including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of September 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group 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-September 30, 2008.

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. 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 and net of investment expense) 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 time frame. 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. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Unexpected Nominal Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5%
Cash	<u>1%</u>	3.25%
	100%	

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 employee contributions will be made at the current contribution rate and that contributions from the Water District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Water District's proportionate share of the net pension liability to changes in the discount rate - The following presents the Water District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Water 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 (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease <u>6.75%</u>	Current Discount Rate <u>7.75%</u>	1% Increase <u>8.75%</u>
Water District's proportionate share of the net pension liability	\$ 522,000	\$ 397,000	\$ 286,000

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

The District has a second retirement plan – a 457B deferred compensation plan. Employees are eligible to participate after twelve months of full-time employment and are fully vested after five years of participation. Contributions to the plan were \$1,747 and \$6,067 by the employee and the District, respectively.

Note 4 - Leave Policies

District employees accrue ten annual and six sick leave days per year. Leave accrues at the beginning of employment but cannot be used until after six months of employment. Upon retirement employees are paid for one-half of unused accrued sick leave and all unused annual leave. Accrued absences in the amount of \$12,045 are provided for in the financial statements.

Note 5 - Changes in Capital Assets

The following is a summary of changes in the capital assets for the fiscal year:

	Balance 1/1/2015	Transfers/ Additions	Deletions	Balance 12/31/2015
Land, non-depreciable	\$ 13,620	\$ -	\$ -	\$ 13,620
Utility plant and equipment	14,007,057	53,096	-	14,060,153
Construction in process, non-depreciable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 14,020,677</u>	<u>\$ 53,096</u>	<u>\$ -</u>	<u>\$ 14,073,773</u>
Accumulated depreciation	<u>\$ 4,507,371</u>	<u>\$ 342,166</u>	<u>\$ -</u>	<u>\$ 4,849,537</u>
Capital assets, net of accumulated depreciation	<u>\$ 9,513,306</u>	<u>\$ (289,070)</u>	<u>\$ -</u>	<u>\$ 9,224,236</u>

Note 6 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account. The District also must transfer \$456 per month into a depreciation fund.

Note 7 - Restricted Cash

Restricted cash is composed of the following:

Depreciation reserve fund	\$ 150,284
Debt reserve fund	113,833
Construction accounts	<u>-</u>
	<u>\$ 264,117</u>

Note 8 – Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2015. Areas of noncompliance, if any, as a result of examinations would be included as a part of the “Findings and Questioned Costs” section of this report.

Note 9 – Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

Note 9 –Prior Period Adjustment

To record net pension liability in accordance with GASB 68 - \$ (403,570)

SUPPLEMENTAL INFORMATION

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

Board of Commissioners
Magoffin County Water District
Salyersville, Kentucky

We have audited the financial statements of the business-type activities of the Magoffin County Water District, as of and for the year ended December 31, 2015, and have issued our report thereon dated April 05, 2016. 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.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency. [2015-001]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

April 05, 2016

**Magoffin County Water District
Schedule of the Water District's Proportionate
Share of Net Pension Liability
December 31, 2015**

	<u>12/31/2015</u>
Water District's proportion of the net pension liability	0.012223%
Water District's proportionate share of the net pension liability	\$ 397,000
Water District's covered employee payroll	\$ 447,467
Water District's proportionate of the net pension liability as a percentage of its covered employee payroll	88.72%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

**Magoffin County Water District
Schedule of Water District Contributions
December 31, 2015**

	<u>12/31/2015</u>
Contractually required contribution	\$ 56,694
Contributions in relation to the contractually required contribution	<u>56,694</u>
Contribution deficiency	<u>\$ -</u>
Water District's covered payroll	<u>\$ 447,467</u>
Contributions as a percentage of covered payroll	12.67%

Magoffin County Water District
 COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
 For the years ended December 31, 2014 and 2015

	<u>2014</u>	<u>2015</u>
Revenues		
User fees	\$ 1,241,846	\$ 1,236,389
Other water revenue	55,975	86,130
Other revenue	19,098	-
	<u>1,316,919</u>	<u>1,322,519</u>
Expenses		
Water purchased	532,268	550,964
Salaries	328,910	341,712
Office expense	48,739	53,466
Insurance	33,468	32,587
Taxes	59,175	60,451
Rental expense	8,800	8,700
Legal & accounting	22,964	4,400
Employee benefits	91,898	71,941
Miscellaneous	12,348	6,900
Electric pumping expense	42,515	41,357
Depreciation	334,181	342,166
Supplies	62,527	47,150
Utilities	13,570	10,612
Water testing	4,023	4,869
Bad debt	1,407	958
Truck expense	34,624	24,985
	<u>1,631,417</u>	<u>1,603,218</u>
Total Operating Expenses	<u>1,631,417</u>	<u>1,603,218</u>
Operating Income (Loss)	<u>(314,498)</u>	<u>(280,699)</u>
Nonoperating Revenues (Expenses)		
Gain on sale of equipment	-	3,013
Tap fees	19,309	22,030
Debt issuance costs	-	(33,117)
Interest income	3,059	3,018
Interest expense	(78,165)	(66,634)
	<u>(55,797)</u>	<u>(71,690)</u>
Net Nonoperating Revenues (Expenses)	<u>(55,797)</u>	<u>(71,690)</u>
Change in Net Position	<u>\$ (370,295)</u>	<u>\$ (352,389)</u>

MAGOFFIN COUNTY WATER DISTRICT
FINDINGS AND RESPONSES
December 31, 2015

PRIOR FINDINGS

2014-01 Segregation of Duties – Repeated as 2015-001

CURRENT FINDINGS

2015-001 Lack of Segregation of Duties

Condition: The District has an inadequate segregation of duties within its internal control process.

Criteria: All governmental entities should design their internal control to provide an adequate segregation of duties.

Cause: The District does not have sufficient employees to adequately design its internal control.

Recommendation: The District should continue to design and implement its internal control policies to provide the maximum segregation of duties possible.

Response: We will do as recommended.