

**REPORT OF THE AUDIT OF THE
BREATHITT COUNTY
WATER DISTRICT BOARD OF COMMISSIONERS**

**For The Year Ended
December 31, 2015**

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
REPORT OF THE AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2015**

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Independent Auditor's Report

To the Board of Commissioners
Breathitt County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Breathitt County Water District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Breathitt County Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 opinions.

Opinions

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 Breathitt 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 and pension supplemental reporting information on pages 4–6 and 26 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016, on our consideration of the Breathitt 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 Breathitt County Water District's internal control over financial reporting and compliance.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

June 27, 2016

BREATHITT COUNTY WATER DISTRICT COMMISSION OFFICIALS

For The Year Ended December 31, 2015

Water District Board Members:

Bobby Thorpe	Chairman
Sammie Turner	Vice Chairman
Kash Noble	Treasurer
Eva Fugate	Secretary
Cheryl S. Campbell	Board Member

Appointed Personnel:

Estill McIntosh	Superintendent
Wanda Kaye Barnett	Recorder
Cheryl Campbell	Office Clerk

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

As management of the Breathitt County Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2015. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$366,792. The ending cash balance for the District was \$183,296.
- The District continued water line extensions to various locations in Breathitt County.
- The District had the following ongoing and planned projects at various stages: Frozen Creek, War Shoal, Johnson Fork, Puncheon Creek, Highland Road Ext, Creekside Road, Snake Branch, Bryant Creek Rd, Chester Bailey Rd, Hunting Creek Waterline and Stray Branch.
- As of December 31, 2015 the District had 1,694 customers, up from 1,605 the previous year.
- The Breathitt County Water District adopted GASB 68 for the year ended December 31, 2015 recognizing the District's actuarially calculated net pension liability related to its participation in County Employee's Retirement System. The net pension liability at December 31, 2015 is \$200,000.

Management's Discussion and Analysis (MD & A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Our discussion and analysis of the Breathitt County Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2015. Please read the MD & A in conjunction with the District's financial statements.

For accounting purposes, the District is classified as an enterprise fund: Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indicator.

Overview of the Financial Statements

This annual report includes this Management Discussion and Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. The District's financial statements are presented as fund level financial statements because the District only has proprietary funds. In addition, reports and schedules required by Government Auditing Standards are included.

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the District's activities.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Position. The statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operation, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The District's basic financial statements are the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. The Statement of Net Position provides a summary of the District's assets and liabilities as of the close of business on December 31, 2015. The Statement of Changes in Fund Net Position summarizes the revenues and sources of those revenues generated during the year ended December 31, 2015 and the expenses incurred in operating the District for the year ended December 31, 2015.

Our analysis below focuses on the net position and the change in net position of the District as a whole and not the individual operations or projects.

	<u>12/31/2015</u>	<u>12/31/2014</u>
Net Position:		
Current Assets	\$ 334,752	\$ 533,953
Noncurrent Assets	\$ 34,749,593	\$ 34,669,698
Deferred Outflows of Resources	26,732	-
<u>Total Assets and Deferred Outflows of Resources</u>	<u>35,111,077</u>	<u>35,203,651</u>
Current Liabilities	160,471	259,047
Noncurrent Liabilities	2,131,021	2,132,381
Deferred Inflows of Resources	22,000	-
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>2,313,492</u>	<u>2,391,428</u>
- Net Position -		
Net Investment in Capital Assets	32,731,822	32,518,799
Restricted	122,468	167,468
Unrestricted	(56,705)	125,956
<u>Total Net Position</u>	<u>32,797,585</u>	<u>32,812,223</u>
<u>Total Liabilities, Deferred Inflows of Resources and Net Position</u>	<u>\$ 35,111,077</u>	<u>\$ 35,203,651</u>

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

- Decrease in current assets results primarily from a decrease in cash.
- Increase in non-current assets is due to ongoing completion of water infrastructure projects.
- Deferred outflows of resources, deferred inflows of resources and noncurrent liabilities reflect significant increases due to recognition of the District's net pension liability. Total increases to noncurrent liabilities include increases for net pension liability and deferred inflows of resources of \$222,000. Total increases to deferred outflows of resources were \$26,732.

Changes in Fund Net Positions	<u>12/31/2015</u>	<u>12/31/2014</u>
Revenues	\$ 864,237	\$ 827,183
Operating Expenses:		
General	773,202	767,325
Depreciation Expense	<u>970,085</u>	<u>674,460</u>
Total Operating Expenses	<u>1,743,287</u>	<u>1,441,785</u>
Other Income (Expenses)	<u>661</u>	<u>386</u>
Increase (Decrease) in Net Position	<u>\$ (878,389)</u>	<u>\$ (614,216)</u>

- Increases in revenues and several general operating expenses due to the increase in customers. Operating expenses that increased include cost of goods sold, supplies, auto and truck expense.
- Increase in depreciation is related to recognition of ongoing infrastructure projects.

Questions regarding this report should be directed to the District Office at (606) 666-3800.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF NET POSITION**

DECEMBER 31, 2015

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF NET POSITION
December 31, 2015

<u>ASSETS:</u>	<u>Totals</u>
Current Assets:	
Cash and cash equivalents	\$ 183,296
Accounts Receivable (net of allowance for doubtful accounts)	76,919
Inventory	20,262
Notes Receivable	31,880
Prepaid Expense	9,742
Construction Related Receivables	<u>12,653</u>
<u>Total Current Assets</u>	<u>334,752</u>
Noncurrent Assets:	
Capital Assets:	
Capital Assets, not being depreciated	730,244
Capital Assets, net of accumulated depreciation	<u>34,019,349</u>
<u>Total Noncurrent Assets</u>	<u>34,749,593</u>
 <u>DEFERRED OUTFLOWS - PENSION RESOURCES:</u>	
Deferred outflows - pension resources	<u>26,732</u>
 <u>Total assets and deferred outflows of resources</u>	 <u>\$35,111,077</u>
 <u>LIABILITIES:</u>	
Current Liabilities:	
Accounts Payable	36,251
Accrued Payroll and Withheld Taxes Payable	9,015
Accrued Vacation Payable	6,401
Sales and Utility Taxes Payable	2,239
Construction Related Payables	19,815
Current Portion of Long-Term Debt	<u>86,750</u>
<u>Total Current Liabilities</u>	<u>160,471</u>
Long-term Liabilities:	
Revenue Bonds	321,500
Net Pension Liability	200,000
Notes Payable	1,696,271
Less: Current portion	<u>(86,750)</u>
<u>Total Long-Term Liabilities</u>	<u>2,131,021</u>
<u>Total Liabilities</u>	<u>2,291,492</u>
 <u>DEFERRED INFLOWS - PENSION RELATED:</u>	
Deferred inflows - pension related	<u>22,000</u>
 <u>NET POSITION:</u>	
Net Investment in Capital Assets	32,731,822
Restricted for Construction	20,605
Restricted for Debt Service	101,863
Unrestricted	<u>(56,705)</u>
<u>Total Net Position</u>	<u>32,797,585</u>
 <u>Total liabilities, deferred inflows of resources and net position</u>	 <u>\$35,111,077</u>

The accompanying notes are an integral part of this financial statement.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

FOR THE YEAR ENDED DECEMBER 31, 2015

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Operating Revenues:</u>	
Water Sales	\$ 832,501
Tap Fees	<u>31,736</u>
<u>Total Operating Revenues</u>	<u>864,237</u>
<u>Operating Expenses:</u>	
Cost of Goods Sold	281,376
Salaries	169,140
Payroll Taxes	11,805
Retirement Expense	13,377
Repairs and Maintenance	5,240
Auto and Truck Expense	45,611
Small Equipment	400
Dues and Subscriptions	948
Insurance	57,825
Professional Fees	11,950
Office Expense	8,989
Postage	8,254
Rents	4,333
Supplies	19,119
Telephone	7,388
Uniforms	1,102
Utilities	62,181
Other Taxes	24,162
Miscellaneous Operating Expenses	5,727
Contract Labor	7,040
Interest Expense	27,235
Depreciation Expense	<u>970,085</u>
<u>Total Operating Expense</u>	<u>1,743,287</u>
<u>Net Operating Income (Loss)</u>	<u>(879,050)</u>
<u>Non-Operating Revenues (Expenses):</u>	
Interest Income	<u>661</u>
<u>Total Non-Operating Revenues (Expenses)</u>	<u>661</u>
Net Income (Loss)	(878,389)
Net Position, Beginning of Year, Restated	32,606,223
Add: Capital Contribution	<u>1,069,751</u>
Net Position, End of Year	<u>\$32,797,585</u>

The accompanying notes are an integral part of this financial statement.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31, 2015

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Cash Flows from Operating Activities:</u>	
Receipts from Customers	\$ 861,220
Payments to Suppliers	(739,283)
Payments to Employees	(192,737)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>(70,800)</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Capital Contributions	1,069,751
Purchase of Capital Assets	(1,049,980)
Long-term Debt Proceeds	-
Payment on Long-term Debt	(133,128)
<u>Net Cash Provided (Used) for Capital and Related Financing Activities</u>	<u>(113,357)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest revenue	661
Net Increase (Decrease) in Cash	(183,496)
Cash and restricted cash, Beginning of Year	366,792
Cash and restricted cash, End of Year	<u>183,296</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>	
Operating Income (Loss)	(879,050)
Adjustments to reconcile operating net cash provided by operating activities:	
Depreciation	970,085
Restatement of net position	(206,000)
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	5,048
(Increase) decrease in construction related receivables	25,006
(Increase) decrease in notes receivable	(8,065)
(Increase) decrease in inventories	(5,415)
(Increase) decrease in prepaid insurance	(869)
Increase (decrease) in accounts payable	(3,493)
Increase (decrease) in accrued payroll and withheld taxes payable	428
Increase (decrease) in accrued vacation payable	(1,488)
Increase (decrease) in sales and utility taxes payable	255
Increase (decrease) in construction related payables	(162,510)
Increase (decrease) in deferred outflows - pension resources	(26,732)
Increase (decrease) in deferred inflows - pension related	22,000
Increase (decrease) in net pension liability	200,000
<u>Net Cash Provided (Used) by Operations</u>	<u>\$ (70,800)</u>

The accompanying notes are an integral part of this financial statement.

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TO FINANCIAL STATEMENTS**

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BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Breathitt County Water District Board of Commissioners (the "Commission") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

B. Reporting Entity

The Breathitt County Water District was formed pursuant to KRS 74.010 et. seq. by the formal vote of the Breathitt County Fiscal Court on August 28, 2003 adopting ordinance 8-21-23A. The governing body of the Breathitt County Water District is a Board of Commissioners that is appointed pursuant to KRS 74.020.

The Commission shall be governed by and have all the powers listed in KRS 74.010 et. seq. and have full and complete supervision, management, and control of the sources of supply of water as provided in the ordinances of resolutions for acquiring and operating them and in their maintenance, operation, and extension.

The accompanying financial statements comply with the provisions of GASB Statement 14, the Financial Reporting Entity, in that the financial statements include all organizations, activities, and functions for which the Commission is financially accountable. This report includes all activities considered by management to be part of the Commission by virtue of Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such, that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and whether it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent upon it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government a) is entitled to the organization's resources, b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or c) is obligated in some manner for the debt of the organization. Based on the application of these criteria, the Commission has no component units.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation

The Commission's basic financial statements consist of a statement of net position, a statement of revenue, expenses and changes in fund net position, and a statement of cash flows.

D. Fund Accounting

The Commission uses the proprietary fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. The Commission uses the proprietary category for its programs.

E. Proprietary Fund Types

Proprietary funds are used to account for the Commission's ongoing activities, which are similar to those found in the private sector. The following is the proprietary fund type:

Enterprise Fund – This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent 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 where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

F. Measurement Focus/Basis of Accounting

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period incurred. Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

G. Allowance for Doubtful Accounts

Breathitt County Water District's financial statements reflect an allowance account for its customer accounts receivable based on management's estimate of probable losses. An allowance expense in the amount of \$77,150 was recognized in the financial statements for the year ended December 31, 2015. All receivables are considered short term and collectible in less than one year.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Description of Program

The Commission is designed to construct waterlines, and supporting infrastructure for those waterlines, that will provide clean water to the citizens of Breathitt County.

I. Capital Assets

Capital assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of three years to forty years. Expenditures for repairs and maintenance are charged directly to expenses as they are incurred. Expenditures determined to represent additions or betterments and have a cost in excess of \$500 are capitalized.

J. Net Position

GASB 63, implemented for fiscal year 2013, has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

K. Operating Revenues and Expenses

Operating revenues and expenses are those revenues that are generated directly from the primary activities of the proprietary fund and expenses incurred for the day to day operation. For the Commission, operating revenues are water sales and tap-on fees and other miscellaneous revenues.

L. Capital Contributions

This represents contributions made available from a variety of sources including but not limited to Community Development Block Grants, Kentucky Infrastructure Authority Grants, Coal Severance Tax Funds, Abandoned Mine Lands Grants, U.S. Department of Agriculture Grants, and contributions from the Breathitt County Fiscal Court.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

M. Budgetary Accounting

The Treasurer/Superintendent shall prepare and submit to the Commission's Budget Committee proposals for the annual Commission budget based on a Calendar Year. The proposed budget will be reviewed and passed to the Commission for tentative adoption. Following this action, the budget will be submitted to the Kentucky Department for Local Government in accordance with KRS 65A.

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

O. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the Commission to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for the future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits and Investments

The Commission maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and (c) an official record of the depository institution. These requirements were met.

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015
 (Continued)

Note 2. Deposits and Investments (Continued)

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Breathitt County Water District does not have any investments other than its interest bearing checking accounts. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the District's cash at December 31, 2015 is held at Citizens Bank & Trust of Jackson. Foreign currency risk is the risk of changes in exchange rates effecting foreign investments. The District does not hold any foreign investments.

Cash consisted of the following at December 31, 2015:

	<u>Book</u> <u>Balance</u>	<u>Bank</u> <u>Balance</u>	<u>Interest</u> <u>Rate</u>
Sinking Fund	\$ 56,162	\$ 56,162	0.25%
Short Lived Assets	28,582	35,484	0.25%
Reserve Account	17,119	17,119	0.25%
Operations and Maintenance	23,029	28,420	0.25%
AML Hwy 1110 Project	140	140	0.00%
AML Hwy 476 Project	88	88	0.00%
Canoe Project	246	246	0.25%
Southfork Project	154	154	0.00%
Frozen Phase I Project	8	8	0.00%
Frozen Phase II Project	159	159	0.00%
Frozen Phase III Project	77	77	0.00%
Multi County Project	9	9	0.00%
Misc Waterline Project	6,043	6,043	0.00%
Waterline Relocation Project	1	1	0.00%
KIA	13,680	13,680	0.25%
BCFC Water Assistance Fund	<u>37,799</u>	<u>38,099</u>	0.25%
<u>Totals</u>	<u>\$ 183,296</u>	<u>\$ 195,889</u>	

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015
 (Continued)

Note 3. Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

<u>Primary Government</u>	1/1/2015 <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	12/31/2015 <u>Balance</u>
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 47,581	\$ -	\$ -	\$ 47,581
Construction in Progress	<u>12,294,637</u>	<u>448,119</u>	<u>(12,060,093)</u>	<u>682,663</u>
Total Capital Assets Not Being Depreciated	<u>12,342,218</u>	<u>448,119</u>	<u>(12,060,093)</u>	<u>730,244</u>
Capital Assets Being Depreciated:				
Vehicles	125,744	33,541	-	159,285
Office Equipment	5,542	-	-	5,542
Other Equipment	96,543	4,478	-	101,021
Water Improvements	<u>26,254,738</u>	<u>12,623,935</u>	<u>-</u>	<u>38,878,673</u>
Total Capital Assets Being Depreciated:	<u>26,482,567</u>	<u>12,661,954</u>	<u>-</u>	<u>39,144,521</u>
Less Accumulated Depreciation For:				
Vehicles	(119,124)	(7,493)	-	(126,617)
Office Equipment	(4,909)	(452)	-	(5,361)
Other Equipment	(88,116)	(2,228)	-	(90,344)
Water Improvements	<u>(3,942,938)</u>	<u>(959,912)</u>	<u>-</u>	<u>(4,902,850)</u>
Total Accumulated Depreciation	<u>(4,155,087)</u>	<u>(970,085)</u>	<u>-</u>	<u>(5,125,172)</u>
Total Capital Assets Being Depreciated, Net	<u>22,327,480</u>	<u>11,691,869</u>	<u>-</u>	<u>34,019,349</u>
Total Capital Assets, Net	<u>\$ 34,669,698</u>	<u>\$ 12,139,988</u>	<u>\$ (12,060,093)</u>	<u>\$ 34,749,593</u>

Total depreciation expense for the year ended December 31, 2015 was \$970,085.

Note 4. Long-Term Debt

A. Waterworks Revenue Bonds, Series 2009

On September 24, 2009, the Breathitt County Water District issued \$350,000 in Waterworks Revenue Bonds, Series 2009. The bonds were sold at par to the U.S. Department of Agriculture, acting through Rural Development. The proceeds from these bonds were used for the construction of water lines.

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015
 (Continued)

Note 4. Long-Term Debt (Continued)

A. Waterworks Revenue Bonds, Series 2009 (Continued)

The bonds are scheduled to mature in 2048 and carry an interest rate of 2.625%. Annual interest payments are required with annual principal payments beginning in 2011. As of December 31, 2015, the principal balance outstanding on these bonds was \$321,500. Debt service requirements for the remaining years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 321,500
2016	6,000	8,427	\$ 14,427	315,500
2017	6,500	8,269	14,769	309,000
2018	6,500	8,099	14,599	302,500
2019	6,500	7,928	14,428	296,000
2020	7,000	7,757	14,757	289,000
2021-2025	37,000	35,952	72,952	252,000
2026-2030	42,500	30,767	73,267	209,500
2031-2035	48,000	24,914	72,914	161,500
2036-2040	55,500	18,260	73,760	106,000
2041-2045	63,500	10,647	74,147	42,500
2046-2048	<u>42,500</u>	<u>2,311</u>	<u>44,811</u>	<u>-</u>
Total	\$ 321,500	\$ 163,331	\$ 484,831	

B. Kentucky Infrastructure Authority

In December 2009 the Breathitt County Water District requested \$572,000 from the Kentucky Infrastructure Authority's Drinking Water State Revolving Fund Loan Program. During 2010 the District received the funds and made the first payment on the loan balance. The loan was funded by the American Recovery and Reinvestment Act. As part of the agreement \$309,452 was forgiven. Semi-annual principal and interest payments are due in June and December of each year. The debt is scheduled to mature in 2030 and carry an interest rate of 1%. The agreement calls for the District to deposit \$1,000 per year into a reserve account until a balance of \$10,000 is reached.

Debt service requirements for the remaining years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 196,271
2016	12,644	1,931	\$ 14,575	183,627
2017	12,770	1,804	14,574	170,857
2018	12,898	1,676	14,574	157,959
2019	13,028	1,547	14,575	144,931
2020	13,158	1,416	14,574	131,773
2021-2025	67,796	5,078	72,874	63,977
2026-2030	<u>63,977</u>	<u>1,611</u>	<u>65,588</u>	<u>-</u>
Total	\$ 196,271	\$ 15,063	\$ 211,334	

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015
 (Continued)

Note 4. Long-Term Debt (Continued)

C. Kentucky Infrastructure Authority

In April 2012 the Breathitt County Water District began drawing down funds from the Kentucky Infrastructure Authority's (KIA) Drinking Water State Revolving Fund Loan Program in relation to waterline projects. Total loan approved for the project is \$2,500,000. As part of the agreement \$1,000,000 will be forgiven. Interest payments began six months after the first draw of funds. Full principal and interest payments will start in June 2016. Semi-annual principal and interest payments will be due in June and December of each year. The debt has a term of 20 years and carries an interest rate of 1%. The agreement calls for the District to deposit \$6,250 per year into a reserve account until a balance of \$62,500 is reached.

Debt service requirements for the remaining years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 1,500,000
2016	\$ 68,106	\$ 18,620	\$ 86,726	1,431,894
2017	68,789	17,684	86,473	1,363,105
2018	69,479	16,823	86,302	1,293,626
2019	70,175	15,951	86,126	1,223,451
2020	70,879	15,072	85,951	1,152,572
2021-2025	365,196	61,858	427,054	787,376
2026-2030	383,872	38,512	422,384	403,504
2031-2035	<u>403,504</u>	<u>13,976</u>	<u>417,480</u>	<u>-</u>
<u>Total</u>	<u>\$ 1,500,000</u>	<u>\$ 198,496</u>	<u>\$ 1,698,496</u>	

D. Changes in long-term debt

Changes in long-term debt for the District are as follows:

	<u>1/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2015</u>	<u>Current</u>
	<u>Balance</u>			<u>Balance</u>	<u>Portion</u>
Rural Development Revenue Bonds	\$ 327,500	\$ -	\$ (6,000)	\$ 321,500	\$ 6,000
Kentucky Infrastructure Authority	1,614,610	-	(114,610)	1,500,000	68,106
Kentucky Infrastructure Authority	<u>208,789</u>	<u>-</u>	<u>(12,518)</u>	<u>196,271</u>	<u>12,644</u>
Total	<u>\$ 2,150,899</u>	<u>\$ -</u>	<u>\$ (133,128)</u>	<u>\$ 2,017,771</u>	<u>\$ 86,750</u>

Note 5. Employee Retirement System

The Commission has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015
 (Continued)

Note 5. Employee Retirement System (Continued)

Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. Non-hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to the plan. The Commission's contribution rate for non-hazardous employees was 18.89 percent for the first half of the year and 17.67 percent for the second half of the year.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Non-hazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

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

The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	CERS Non-Hazardous at 6/30/2014 (in millions of dollars)
Actuarial Accrued Liability	\$ 9,772.5
Actuarial Value of Assets	<u>6,117.1</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 3,655.4</u>
Funded Ratio	62.6%
Annual Covered Payroll	\$ 2,272.3
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	160.9%

Following is a three-year summary of employer pension contributions:

Year Ended	Amount
2015	\$ 23,118
2014	\$ 26,838
2013	\$ 24,426

BREATHITT COUNTY WATER DISTRICT
 BOARD OF COMMISSIONERS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015
 (Continued)

Note 5. Employee Retirement System (Continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:

At December 31, 2015, Breathitt County Water District reported a net pension liability of \$200,000 from its participation in the CERS non-hazardous plan. The liabilities were measured at 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 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 plans relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2015 the District's liability proportion was .006169% for CERS non-hazardous. This is the first year the District recognized a liability, therefore, no increase (decrease) of prior year portions are available.

For the year ended December 31, 2015, the District's financial statements reported CERS non-hazardous pension expense of \$16,000. For the year ended December 31, 2015 the District recognized deferred outflows of resources of \$26,732 and deferred inflows of resources of \$22,000.

Significant assumptions used in the CERS valuation for its non-hazardous members were as follows:

- Valuation date, June 30, 2014
- Investment rate of return – 7.75%
- Salary increases – 4.75% - 13.0%

The actuarial assumptions for CERS were based on actuarial experience study prepared of June 30, 2008 and adopted by the Board on August 20, 2009.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation.

Best estimates of CERS target asset allocation of arithmetic real rates of return for each major asset class, as provided by CERS' investment consultant, are summarized below:

<u>Asset Class</u>	<u>CERS Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	30%	8.45%
International equity	22%	8.85%
Emerging market equity	5%	10.50%
Private equity	7%	1.25%
Real estate	5%	7.00%
Core US fixed income	10%	5.25%
High yield US fixed income	5%	7.25%
Non-US fixed income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	<u>1%</u>	3.25%

100.0%

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015
(Continued)

Note 5. Employee Retirement System (Continued)

The discount rate for CERS used to measure the total pension liability was 7.75%, considered a change in actuarial assumptions under GASB 68.

Note 6. Insurance

For the year ended December 31, 2015, the Commission was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Contingencies

The District receives funding from local, state, and federal government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Note 8. Restatement of Net Position

The Breathitt County Water District decreased net position by \$206,000 to recognize net pension liability related to implementation of GASB 68.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

For The Year Ended December 31, 2015

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

For The Year Ended December 31, 2015

Employer's Proportionate Share of Net Pension Liability

	<u>2015</u> CERS <u>Nonhazardous</u>
Employer's proportion of the net pension liability	0.006169%
Employer's proportionate share of the net pension liability	200,000
Employer's covered employee payroll	148,094
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	135%
Plan fiduciary net position as a percentage of the total pension liability	62.6%

Employer's Contributions

	<u>2015</u> CERS <u>Nonhazardous</u>
Contractually required contribution	16,000
Contributions in relation to the contractually required contribution	16,000
Contribution deficiency (excess)	-
City's covered employee payroll	148,094
Contributions as a percentage of covered employee payroll	10.80%

**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***

Chris Gooch

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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*

To the Board of Commissioners
Breathitt County Water District

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 business-type activities of the Breathitt County Water District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Breathitt County Water District's basic financial statements, and have issued our report thereon dated June 27, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Breathitt 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Breathitt County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Breathitt 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Breathitt County Water District's financial statements are free from 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*.

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
(Continued)

Purpose of this Report

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

A handwritten signature in cursive script, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

June 27, 2016