

**BATH COUNTY WATER DISTRICT
SALT LICK, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014**

BATH COUNTY WATER DISTRICT
SALT LICK, KENTUCKY
Years Ended December 31, 2015 and 2014

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Financial Statements	
Statements of Net Position	3
Statements of Revenues, Expenses And Changes in Net Position	4
Statements of Cash Flows	5
Notes to the Financial Statements	6-17
<u>Supplemental Information</u>	
Supplemental Information Required by Rural Development	18
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	19-20

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

115 SOUTH MAIN CROSS
FLEMINGSBURG, KY 41041
(606) 845-5210

550 W. FIRST ST., PO BOX 449
MOREHEAD, KY 40351
(606) 784-4451
(606) 784-8224 (FAX)

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Bath County Water District, Kentucky
Salt Lick, Ky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Bath County Water District, Kentucky as of and for the year ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Bath County Water District, Kentucky, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2016, on our consideration of the Bath County Water District, Kentucky'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 Bath County Water District, Kentucky's internal control over financial reporting and compliance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

February 11, 2016

BATH COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
DECEMBER 31,

ASSETS & DEFERRED OUTFLOWS	2015	2014
Current Assets		
Cash	\$ 1,118,199	\$ 1,564,877
Accounts receivable		
Customers, net	257,308	263,890
Other		-
Prepaid expenses	17,204	16,665
Inventory	84,957	95,465
	<u>1,477,667</u>	<u>1,940,897</u>
Restricted Assets		
Cash-Customer deposits	55,708	58,058
Cash-Sinking fund	161,702	122,737
Cash-Depreciation fund	219,400	219,400
	<u>436,809</u>	<u>400,195</u>
Fixed Assets		
Property, Plant & Equipment	15,378,986	15,278,670
Less accumulated depreciation	(5,426,419)	(5,068,106)
Construction-in-progress	72,110	72,110
	<u>10,024,676</u>	<u>10,282,674</u>
Deferred Outflow of Resources	<u>55,240</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u><u>\$ 11,994,392</u></u>	<u><u>\$ 12,623,766</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 97,283	\$ 61,600
MUPB payable	15,806	19,098
BCSD payable	3,347	3,323
O'Ville payable	4,028	4,100
Accrued wages and Vacation Pay	61,298	60,135
Customer deposits	67,181	57,503
Advances	-	-
Taxes payable	8,095	7,247
Accrued interest payable	31,825	50,495
Current Portion of bonds payable	28,000	64,500
Total Current Liabilities	<u>316,863</u>	<u>328,001</u>
Noncurrent Liabilities		
KRWA financing	-	-
Accrued pension and OPED liabilities	438,000	-
Bonds payable, net	1,591,000	2,291,700
Total Long-term Liabilities	<u>2,029,000</u>	<u>2,291,700</u>
Deferred Inflow of Resources	<u>49,000</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>2,394,863</u>	<u>2,619,701</u>
Net Position		
Investment in Capital Assets, Net of Related Debt	8,405,676	7,926,474
Restricted Net Assets	436,809	400,195
Unrestricted Net Assets	757,043	1,677,401
TOTAL NET POSITION	<u><u>\$ 9,599,528</u></u>	<u><u>\$ 10,004,065</u></u>

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

BATH COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
PROPRIETARY FUND
for the years ended December 31,

	2015	2014
OPERATING INCOME		
Water sales	\$ 1,968,210	\$ 1,872,594
Other revenue	<u>78,492</u>	<u>79,211</u>
Total operating income	<u>2,046,702</u>	<u>1,951,805</u>
OPERATING EXPENSES		
Power	81,396	75,428
Water purchased	794,328	710,367
Salaries	327,905	305,662
Materials and Supplies	24,486	28,892
Transportation expense	23,712	25,722
Insurance	26,086	24,091
Health and Life Insurance	130,137	120,635
Chemicals	9,001	7,363
Payroll taxes	24,407	23,389
Employee retirement	35,000	55,566
Legal and Professional	5,250	4,750
Contract Services	28,237	11,270
Office Utilities	13,116	13,277
Office Supplies	31,698	28,399
Postage	14,907	16,515
Miscellaneous	-	-
Bad debt expense (recoveries)	8,706	10,885
Regulatory commission expenses	<u>3,537</u>	<u>3,076</u>
Total operating expense	<u>1,581,907</u>	<u>1,465,287</u>
Operating income before depreciation	464,795	486,518
Depreciation expense	<u>(358,313)</u>	<u>(355,075)</u>
OPERATING INCOME (LOSS)	106,482	131,443
Non-operating income (Expenses)		
Gain (Loss) on disposal of assets	-	3,600
Customer Tap Fees	-	-
Interest income	8,288	7,595
Interest expense	<u>(94,065)</u>	<u>(99,787)</u>
Total Non-Operating Income (Expense)	<u>(85,777)</u>	<u>(88,592)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	20,705	42,852
STATE CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>-</u>	<u>-</u>
NET INCOME (LOSS) AFTER CONTRIBUTIONS	20,705	42,852
NET POSITION, BEGINNING OF YEAR	<u>10,004,065</u>	<u>9,841,209</u>
Add: Customer Tap Fees	23,850	36,501
Add: Customer Contributions	2,905	83,505
Prior Period Adjustment-GASB68	(452,000)	-
NET POSITION, END OF YEAR	<u>\$ 9,599,528</u>	<u>\$ 10,004,065</u>

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

BATH COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
for the years ended December 31,

	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 2,053,284	\$ 1,934,492
Payments to Suppliers	(1,248,208)	(1,181,757)
Payments to Employees	(352,311)	(329,051)
Other Receipts (Payments)	-	-
	<hr/>	<hr/>
Net Cash (Used) Provided by Operating Activities	452,765	423,684
CASH FLOW FROM INVESTING ACTIVITIES		
Sinking Fund	38,965	4,059
Depreciation Fund	(2,350)	(5,861)
Interest Income	8,288	7,595
	<hr/>	<hr/>
Net Cash (Used) Provided by Investing Activities	44,903	5,793
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	-	-
Principal Paid on Capital Debt	(737,200)	(58,800)
Purchases of Capital Assets	(100,315)	(129,840)
State Grants Received	-	81,375
Contributed Capital-Tap Fees	23,850	36,501
Interest Paid on Capital Debt	(94,065)	(99,787)
	<hr/>	<hr/>
Net cash (Used) Provided by Financing Activities	(907,730)	(170,550)
NET INCREASE (DECREASE) IN CASH	(410,062)	258,927
Cash and Cash Equivalents - At beginning of year	<hr/> 1,965,072	<hr/> 1,706,146
CASH AND CASH EQUIVALENTS - AT END OF YEAR	<u>\$ 1,555,009</u>	<u>\$ 1,965,072</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 106,482	\$ 131,443
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	358,313	355,075
Change in Assets and Liabilities:		
Accounts Receivable, Net	6,582	(17,313)
Inventories	(10,508)	(3,293)
Prepaid Expense	(539)	6,868
Accounts Payable and Other Payables	(18,405)	(57,619)
Customer Deposits	9,678	6,863
Accrued Wages and Vacation	1,163	1,661
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	<u>\$ 452,765</u>	<u>\$ 423,684</u>

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

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014**

NOTE 1: ORGANIZATION AND ACCOUNTING POLICIES

The Bath County Water District was created and organized as a public body corporate in Bath County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Bath County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operation 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 Bath 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 government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District.

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

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds

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 management focus. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014**

Note 1: ORGANIZATION AND ACCOUNTING POLICIES

Basis of Accounting

The District maintains its accounting records on the accrual basis during the year. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is maintained at lower of cost or market.

Utility Plant

Utility Plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

Depreciation

Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates on a straight-line basis determined by reference to Utility Standards Rates (NARUC). The provisions for depreciation in 2014 reflect those standard rates by asset class.

Unbilled Revenue

The District records revenue as billed to its customers on monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statement include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014**

Net Position

Net position represents the difference between assets and liabilities in the statement of net assets. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does have a deposit policy for custodial credit risk. As of December 31, 2015, \$0 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$0
--	-----

NOTE 3: LONG-TERM DEBT

Revenue bonds in the principal amount of \$235,000 were authorized in 1970 and are held by the Economic Development Administration. A 1977 Bond Issue in the amount of \$130,000 was sold to the Farmers Home Administration, payable and secured by a pledge of the revenues of the District on parity as to security and source of payment with the 1970 Bonds held by EDA. A 1982 Bond Issue in the amount of \$106,000 was sold to the Farmers Home Administration as second lien bonds subject to the vested rights and priority of the 1970 and 1977 bonds. Bonds in the amount of \$375,000 were authorized in 1988 and issued February 14, 1989, as second lien bonds on parity as to security and source of payment with the 1982 bonds. Bonds in the amount of \$138,000 were authorized and issued May 26, 1989 as second lien bonds on parity as to security and source of payment with the second lien bonds of 1982 and 1988. Bonds in the amount of \$103,000 were authorized in 1991 and issued November 25, 1992 and bonds in the amount of \$280,000 were authorized in 1994 and issued October 20, 1994, as second lien bonds. Bonds in the amount of \$200,000 were authorized and issued January 22, 1999. Bonds in the amount of \$500,000 were authorized and issued June 29, 2004. The Bonds Issues of 1988, 1989, 1991, 1998 and 2004 were sold to the Farmers Home Administration. Bonds Series 2009 in the amount of \$259,000 were authorized and issued January 26, 2010.

BATH COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS (Continued)
 For years Ended December 31, 2015 and 2014

Note 4: LONG-TERM DEBT (CONTINUED)

The Following is a summary of changes in long-term debt for the year ended December 31, 2015

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bond Series 2004				
Loan Amount \$500,000				
Interest rate 4.375%	451,500.00		7,500.00	444,000.00
Bond Series 2006				
Loan Amount \$1,039,000				
Interest rate 4.125%	948,000.00		15,500.00	932,500.00
Bond Series 2009				
Loan Amount \$259,000				
Interest rate 2.375%	247,000.00	-	4,500.00	242,500.00
	<u>\$ 1,646,500.00</u>	<u>\$ -</u>	<u>\$ 27,500.00</u>	<u>\$ 1,619,000.00</u>
Less: Current Maturities	64,500.00			28,000.00
Totals	<u><u>\$ 1,582,000.00</u></u>			<u><u>\$ 1,591,000.00</u></u>

The following is a schedule of long-term debt maturities

	<u>Principle</u>	<u>Interest</u>
2016	28,000.00	63,103.00
2017	29,000.00	61,986.00
2018	30,500.00	60,817.00
2019	32,000.00	59,590.00
2020	33,000.00	58,314.00
2021-2025	186,000.00	270,604.00
2026-2030	228,000.00	223,305.00
2031-2035	279,500.00	167,085.00
2036-2040	341,500.00	117,907.00
2041-2045	390,500.00	42,782.00
2046-2049	41,000.00	1,971.00
	<u><u>\$ 1,619,000.00</u></u>	<u><u>\$ 1,127,464.00</u></u>

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014**

NOTE 5: RESERVES

The Bath County Water District is required to comply with the bond agreements of all bond issues as follows:

Sinking Fund

The District is required to set aside an amount into a special account known as the Bath County Water District Water System Revenue Bonds, Bond and Interest Sinking Fund. The amount to be so set aside and paid each month shall be not less than the following respective amounts:

- 1) A sum equal to one sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
- 2) A sum equal to one twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance of the reserve at December 31, 2015 was \$28,000. The District had set aside \$161,702 into a restricted account. The District is properly reserved and is over by \$133,702 at December 31, 2015.

Depreciation Fund

The District is required to deposit into the Depreciation Fund account the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and used, upon appropriate certification to the bank, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$186,280, the monthly payments may be discontinued, or by order of the governing body of the District, be diverted into the Sinking Fund Account. The District had set aside \$219,400 and \$219,400 at December 31, 2015 and 2014, respectively.

NOTE 6: SEWER COLLECTIONS

The District began collecting sewer payments for the Morehead Utility Plant Board, Bath County Sewer District and City of Owingsville. The accounts receivable reflected on the balance sheet represent monies receivable for water and sewer service. The MUPB payable, BCSD payable, and OUPB payable are the amount of monies in the receivable, which are due to the MUPB, BCSD, and OUPB. The balance at December 31, 2014 and 2013 was \$23,180 and \$26,470, respectively.

BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

NOTE 7: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description- Regular, Full-time, employees of the Commission 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 benefits 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 Library's contractually required contribution rate for the year ended December 31, 2015 was 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 pension plan from the District were \$55,239 for the year ended December 31, 2015.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014**

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

At December 31, 2015, The District reported a liability of \$438,000 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 District's portion of the net pension liability was based on the District's proportionate share of retirement contributions for the calendar year ended December 31, 2015. At June 30, 2014 the District's proportionate share was 0.014%.

For the year ended December 31, 2015 the District recognized pension expense of \$35,000. At December 31, 2015 the 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-	\$ 49,000
District's contributions subsequent To the measure date	<u>55,239</u>	<u>-0-</u>
Total	\$ 55,239	\$ 49,000

\$55,239 reported as deferred outflows of resources related to pension resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year 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	\$ (9,800)
December 31, 2017	(9,800)
December 31, 2018	(9,800)
December 31, 2019	(9,800)
December 31, 2020	(9,800)
Thereafter	<u>-0-</u>
Total	\$ (49,000)

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014**

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 June 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-June 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 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 invest 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 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%	7.00%
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%	5.00%
Cash	1%	3.25%
	<u>100%</u>	

**BATH COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the years ended December 31, 2015 and 2014**

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 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 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 7.75%, 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 (6.75%) 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>
Center’s Proportionate Share of the net pension liability	\$381,484	\$438,000	\$494,516

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

KENTUCKY EMPLOYEES DEFERRED COMPENSATION PLAN

Kentucky Public Employees’ Deferred Compensation Authority (KDC) is authorized under the Kentucky Revised Statutes (18A.230-18A.275) to provide administration of tax-deferred supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate. It is an agency attached to the Personnel Cabinet of the Commonwealth of Kentucky for administrative purposes only.

A 457(b) pre-tax plan is a governmental deferred compensation plan that allows participants to make tax-deferred contributions each pay period, which are then invested and potentially grow usually until retirement. The Kentucky Public Employees’ Deferred Compensation Authority (KDC) 457(b) Deferred Compensation Plan allows State employees to get the same benefit through a program that is specifically tailored to the needs of Kentucky public employees. A minimum monthly payroll contribution of \$30 per plan is required. The internal Revenue Service’s maximum elective deferrals for 2015 is \$18,000 for those under age 50, \$18,000 age 50 and up, and \$36,000 for special catch-up contributions. You can learn more about the plan by visiting the Kentucky Deferred Comp website at www.KentuckyPlans.com.

Employee contributions to the plan for the year were \$15,510.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014**

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage.

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014**

NOTE 9: FIXED ASSETS

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

Business-Type Activities	Balance Jan. 1, 2015	Additions	Deductions	Balance Dec. 31, 2015
Cost:				
Land	\$ 35,350			\$ 35,350
Plant in Service	14,567,030	41,321		14,608,351
Other Depreciable Assets	676,290	58,994		735,284
Construction in Progress	72,110	-		72,110
Totals at historical cost	15,350,779	100,315	-	15,451,094
Less accumulated depreciation:				
Land & Land Rights				-
Plant in Service	4,517,240	295,579		4,812,819
Other Depreciable Assets	550,867	62,734		613,601
Total accumulated Depreciation	5,068,106	358,313	-	5,426,419
Business-Type Activities Capital Assets - Net	\$ 10,282,673	\$ (257,998)	\$ -	\$ 10,024,675

Capital asset activity for the fiscal year ended December 31, 2014 was as follows:

Business-Type Activities	Balance Jan. 1, 2014	Additions	Deductions	Balance Dec. 31, 2014
Cost:				
Land	\$ 35,350			\$ 35,350
Plant in Service	14,492,780	74,250		14,567,030
Other Depreciable Assets	620,701	55,589		676,290
Construction in Progress	-	72,110		72,110
Totals at historical cost	15,148,830	201,949	-	15,350,779
Less accumulated depreciation:				
Land & Land Rights				-
Plant in Service	4,222,594	294,646		4,517,240
Other Depreciable Assets	490,438	60,429		550,867
Total accumulated Depreciation	4,713,031	355,075	-	5,068,106
Business-Type Activities Capital Assets - Net	\$ 10,435,799	\$ (153,126)	\$ -	\$ 10,282,673

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014**

NOTE 10: CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

NOTE 11: PRIOR PERIOD ADJUSTMENT

To record net pension liability in accordance with GASB 68 – (\$452,000).

SUPPLEMENTAL INFORMATION

**BATH COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2015**

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$ 6,000,000	7/1/2016
Property - Building & Contents	15,000,000.00	7/1/2016
Equipment & Vehicles	140,000.00	7/1/2016
Treasurer and Commissioners	400,000.00	7/1/2016
Workers Compensation	Statutory	7/1/2016

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2015, accounts receivable were aged as follows:

	<u>Number Of Accounts</u>	<u>Amount</u>
Current	3,787	\$ 172,116
Over 30 Days	282	6,226
Over 60 Days	67	1,371
Over 90 Days	111	2,018
Total	<u>4,247</u>	<u>\$ 181,732</u>

During 2015, the District carried a reserve for possible uncollected accounts of \$2,317. Accounts in arrears have been collected or are covered by deposits.

The District had a total of 3,794 customers at December 31, 2015. Of these customers, 3,710 were residential and 84 were commercial.

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

115 SOUTH MAIN CROSS
FLEMINGSBURG, KY 41041
(606) 845-5210

550 W. FIRST ST., PO BOX 449
MOREHEAD, KY 40351
(606) 784-4451
(606) 784-8224 (FAX)

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
Bath County Water District, Kentucky
Salt Lick, KY

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 Bath 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 Bath County Water District, Kentucky's basic financial statements and have issued our report thereon dated February 11, 2016.

Internal Control Over Financial Reporting

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

Purpose of this Report

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

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

February 11, 2016