

**BATH COUNTY WATER DISTRICT
SALT LICK, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015**

BATH COUNTY WATER DISTRICT
SALT LICK, KENTUCKY
Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Bath County Water District, Kentucky as of and for the year ended December 31, 2016, 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 governmental activities of the Bath County Water District, Kentucky, as of June 30, 2016, 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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2017, 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 appropriated 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 27, 2017

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

ASSETS & DEFERRED OUTFLOWS	2016	2015
Current Assets		
Cash	\$ 1,420,832	\$ 1,118,199
Accounts receivable		
Customers, net	285,468	257,308
Other		
Prepaid expenses	17,753	17,204
Inventory	107,105	84,957
	<u>1,831,159</u>	<u>1,477,667</u>
Restricted Assets		
Cash-Customer deposits	67,019	55,708
Cash-Sinking fund	70,837	161,702
Cash-Depreciation fund	219,400	219,400
	<u>357,256</u>	<u>436,810</u>
Fixed Assets		
Property, Plant & Equipment	15,443,108	15,378,986
Less accumulated depreciation	(5,778,077)	(5,426,419)
Construction-in-progress	903,130	72,110
	<u>10,568,162</u>	<u>10,024,676</u>
Deferred Outflow of Resources	<u>114,884</u>	<u>55,240</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u><u>\$12,871,459</u></u>	<u><u>\$ 11,994,392</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 67,440	\$ 97,283
MUPB payable	19,501	15,806
BCSD payable	4,091	3,347
O'Ville payable	3,895	4,028
Accrued wages and Vacation Pay	59,084	61,298
Customer deposits	74,494	67,181
Advances	-	-
Taxes payable	9,492	8,095
Accrued interest payable	31,278	31,825
Current Portion of bonds payable	29,000	28,000
Total Current Liabilities	<u>298,276</u>	<u>316,863</u>
Noncurrent Liabilities		
KRWA financing	-	-
Accrued pension and OPED liabilities	574,740	438,000
KIA DWSFR Loan	742,574	-
Bonds payable, net	1,562,000	1,591,000
Total Long-term Liabilities	<u>2,879,314</u>	<u>2,029,000</u>
Deferred Inflow of Resources	<u>3,406</u>	<u>49,000</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	3,180,996	2,394,863
Net Position		
Investment in Capital Assets, Net of Related Debt	8,977,162	8,405,676
Restricted Net Assets	357,256	436,809
Unrestricted Net Assets	356,045	757,043
TOTAL NET POSITION	<u><u>\$ 9,690,463</u></u>	<u><u>\$ 9,599,528</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,

	2016	2015
OPERATING INCOME		
Water sales	\$ 2,065,761	\$ 1,968,210
Other revenue	79,226	78,492
	<hr/>	<hr/>
Total operating income	2,144,988	2,046,702
OPERATING EXPENSES		
Power	81,999	81,396
Water purchased	840,188	794,328
Salaries	336,805	327,905
Materials and Supplies	24,167	24,486
Transportation expense	16,563	23,712
Insurance	26,109	26,086
Health and Life Insurance	131,243	130,137
Chemicals	9,159	9,001
Payroll taxes	25,473	24,407
Employee retirement	91,146	35,000
Legal and Professional	5,500	5,250
Contract Services	10,626	28,237
Office Utilities	13,320	13,116
Office Supplies	35,994	31,698
Postage	15,220	14,907
Miscellaneous	-	-
Bad debt expense (recoveries)	9,335	8,706
Regulatory commission expenses	3,805	3,537
	<hr/>	<hr/>
Total operating expense	1,676,654	1,581,907
Operating income before depreciation	468,333	464,795
Depreciation expense	<u>(351,657)</u>	<u>(358,313)</u>
OPERATING INCOME (LOSS)	116,676	106,482
Non-operating income (Expenses)		
Gain (Loss) on disposal of assets	-	-
Customer Tap Fees	-	-
Interest income	5,756	8,288
Interest expense	<u>(63,062)</u>	<u>(94,065)</u>
Total Non-Operating Income (Expense)	<u>(57,306)</u>	<u>(85,777)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	59,370	20,705
STATE CONTRIBUTIONS IN AID OF CONSTRUCTION	<hr/>	<hr/>
NET INCOME (LOSS) AFTER CONTRIBUTIONS	59,370	20,705
NET POSITION, BEGINNING OF YEAR	<hr/>	<hr/>
Add: Customer Tap Fees	31,561	23,850
Add: Customer Contributions	-	2,905
Prior Period Adjustment-GASB68	-	(452,000)
NET POSITION, END OF YEAR	<u>\$ 9,690,463</u>	<u>\$ 9,599,528</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,

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 2,116,827	\$ 2,053,284
Payments to Suppliers	(1,308,336)	(1,248,208)
Payments to Employees	(362,279)	(352,311)
Other Receipts (Payments)	-	-
	<hr/>	<hr/>
Net Cash (Used) Provided by Operating Activities	446,213	452,765
CASH FLOW FROM INVESTING ACTIVITIES		
Sinking Fund	(28,130)	38,965
Depreciation Fund	11,311	(2,350)
Interest Income	5,756	8,288
	<hr/>	<hr/>
Net Cash (Used) Provided by Investing Activities	(11,063)	44,903
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	742,574	-
Principal Paid on Capital Debt	(28,000)	(737,200)
Purchases of Capital Assets	(895,143)	(100,315)
State Grants Received	-	-
Contributed Capital-Tap Fees	31,561	23,850
Interest Paid on Capital Debt	(63,062)	(94,065)
	<hr/>	<hr/>
Net cash (Used) Provided by Financing Activities	(212,070)	(907,729)
 NET INCREASE (DECREASE) IN CASH	 223,080	 (410,062)
Cash and Cash Equivalents - At beginning of year	<hr/> 1,555,009	<hr/> 1,965,072
CASH AND CASH EQUIVALENTS - AT END OF YEAR	<hr/> \$ 1,778,088	<hr/> \$ 1,555,009
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 116,676	\$ 106,482
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	351,657	358,313
Change in Assets and Liabilities:		
Accounts Receivable, Net	(28,160)	6,582
Inventories	22,148	(10,508)
Prepaid Expense	(549)	(539)
Accounts Payable and Other Payables	(20,659)	(18,405)
Customer Deposits	7,313	9,678
Accrued Wages and Vacation	(2,214)	1,163
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	<hr/> \$ 446,213	<hr/> \$ 452,765

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, 2016 and 2015**

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, 2016 and 2015

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, 2016 and 2015**

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, 2016, \$0 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$0
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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, 2016 and 2015

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%	444,000		7,500	436,500
Bond Series 2006				
Loan Amount \$1,039,000				
Interest rate 4.125%	932,500		16,000	916,500
Bond Series 2009				
Loan Amount \$259,000				
Interest rate 2.375%	<u>242,500</u>	-	<u>4,500</u>	<u>238,000</u>
	1,619,000	-	28,000	1,591,000
Less: Current Maturities	<u>28,000</u>			<u>29,000</u>
Totals	<u><u>1,591,000</u></u>			<u><u>1,562,000</u></u>

The following is a schedule of long-term debt maturities

	<u>Principle</u>	<u>Interest</u>
2017	29,000	61,986
2016	30,500	60,817
2019	32,000	59,590
2020	33,000	58,314
2021	34,000	56,996
2022-2026	194,000	263,104
2027-2031	237,500	201,564
2032-2036	290,500	168,260
2037-2041	355,500	103,980
2042-2046	324,000	28,633
2047-2050	31,000	1,116
	<u><u>1,591,000</u></u>	<u><u>1,064,360</u></u>

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015**

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, 2016 was \$29,000. The District had set aside \$70,836 into a restricted account. The District is properly reserved and is over by \$41,837 at December 31, 2016.

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, 2016 and 2015, 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, 2016 and 2015 was \$27,487 and \$23,180, respectively.

BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015
NOTE 7: PENSION PLAN

Plan description: Substantially all full-time classified employees of the Water District participate in the County Employees Retirement System (“CERS”). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502)564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Fund for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 17.06% of the members salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions: At June 30, 2016 the Water District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2015 was determined using standard roll-forward techniques. The Water District’s proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2015. At June 30, 2015, the Water District’s proportion was 0.0133%.

For the year ended June 30, 2016, the Water District recognized pension expense of \$63,306. At June 30, 2016, the Water District reported deferred outflows of resources for City contributions subsequent to the measurement date of \$114,884. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

The Water District reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$49,000. These amounts will be recognized in pension expense as follows:

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015**

NOTE 5 – PENSION PLAN (Continued)

<u>Year</u>	
2016	\$9,800
2017	9,800
2018	9,800
2019	9,800
2020	<u>9,800</u>
	\$49,000

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25 percent
Salary Increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015**

NOTE 5 – PENSION PLAN (Continued)

assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
Total	100.0%	

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

NOTE 5 – PENSION PLAN (Continued)

Sensitivity of the Water District's proportionate share of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Water District, calculated using the discount rate of percent, as well as what the Water District's net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

**BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015**

NOTE 5 – PENSION PLAN (Continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Library's proportionate share of the net pension liability	733,125	575,000	440,450

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

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, 2016 and 2015

NOTE 9: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2016 was as follows:

Business-Type Activities	Balance Jan. 1, 2016	Additions	Deductions	Balance Dec. 31, 2016
Cost:				
Land	\$ 35,350			\$ 35,350
Plant in Service	14,608,351	7,767		14,616,118
Other Depreciable Assets	735,284	56,356		791,640
Construction in Progress	72,110	831,020		903,130
Totals at historical cost	<u>15,451,094</u>	<u>895,143</u>	-	<u>16,346,237</u>
Less accumulated depreciation:				
Land & Land Rights				-
Plant in Service	4,812,819	296,610		5,109,429
Other Depreciable Assets	613,601	55,047		668,648
Total accumulated Depreciation	<u>5,426,419</u>	<u>351,657</u>	-	<u>5,778,076</u>
Business-Type Activities Capital Assets - Net	<u>\$ 10,024,675</u>	<u>\$ 543,486</u>	<u>\$ -</u>	<u>\$ 10,568,161</u>

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	<u>15,350,779</u>	<u>100,315</u>	-	<u>15,451,094</u>
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	<u>5,068,106</u>	<u>358,313</u>	-	<u>5,426,419</u>
Business-Type Activities Capital Assets - Net	<u>\$ 10,282,673</u>	<u>\$ (257,998)</u>	<u>\$ -</u>	<u>\$ 10,024,675</u>

BATH COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

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.

SUPPLEMENTAL INFORMATION

**BATH COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2016**

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	7/1/2017
Property - Building & Contents	15,000,000.00	7/1/2017
Equipment & Vehicles	140,000.00	7/1/2017
Treasurer and Commissioners	400,000.00	7/1/2017
Workers Compensation	Statutory	7/1/2017

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2016, accounts receivable were aged as follows:

	<u>Number Of Accounts</u>	<u>Amount</u>
Current	3,926	\$ 192,467
Over 30 Days	114	884
Over 60 Days	40	(48)
Over 90 Days	250	7,876
Total	<u>4,330</u>	<u>\$ 201,180</u>

During 2016, the District carried a reserve for possible uncollected accounts of \$5,232. Accounts in arrears have been collected or are covered by deposits.

The District had a total of 3,824 customers at December 31, 2016. Of these customers, 3,750 were residential and 74 were commercial.

BATH COUNTY WATER DISTRICT
 SCHEDULE OF WATER DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
District's proportion of the net pension liability	0.01337%	0.01350%
District's proportionate share of the net pension liability	\$ 574,740	\$ 438,000
District's covered employee payroll	\$ 353,641	\$ 319,257
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	162.521%	137.193%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	66.80%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

BATH COUNTY WATER DISTRICT
 SCHEDULE OF PENSION CONTRIBUTIONS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2015</u>	<u>2014</u>
Contractually required contribution:	\$ 39,765	\$ 58,503
Contributions in relation to the contractually required contribution:	<u>39,765</u>	<u>58,503</u>
Contribution deficiency (excess):	-	-
District's covered-employee payroll:	353,641	319,257
District's proportionate share of the pension contributions as a percentage of its covered-employee payroll:	11.24%	18.32%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

BATH COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2016

(1) CHANGES OF ASSUMPTIONS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of December 31 listed below:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

**BATH COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016 (Continued)**

(3) CHANGES OF BENEFITS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
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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
Bath 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Bath County Water District District as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Bath County Water District District, Kentucky's basic financial statements and have issued our report thereon dated February 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bath County Water District 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 District, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bath County Water District 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 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 27, 2017