BIG SANDY
WATER DISTRICT

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

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Big Sandy Water District
Catlettsburg, Kentucky

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities of the Big Sandy Water District as of and for the year ended December 31, 2015 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 Big Sandy Water District as of December 31, 2015, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle
As described in Note 13 to the financial statements, in 2015 the District adopted a new accounting principle, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion & analysis on pages 3 and 4 and pension schedules & notes on pages 17-19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Big Sandy Water District's basic financial statements. The comparative statement of revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The comparative statement of revenues and expenses is the responsibility of management and was 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 comparative statement of revenues and expenses is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other reports required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 24, 2016, on our consideration of the Big Sandy 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 Big Sandy Water District's internal control over financial reporting and compliance.

John T. Lane & Associates, LLC

Mount Sterling, Kentucky
May 24, 2016
This report contains 21 pages.

Management's Discussion and Analysis

In June, 1999, the Governmental Accounting Standards Board (GASB) adopted Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The standard requires that a "Management Discussion and Analysis" be included in the annual report along with annual audited financial statements.

Our discussion and analysis of the Big Sandy Water District's Financial performance provided an overview of the Company's financial activities for the year ended December 31, 2015. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

In 2015, Big Sandy Water District had four significant activities that affected our financial status.

Contract D1 Water Transmission Line & Contract E1 Booster Pump Station-this is an emergency backup with City of Ashland that was actually started in 2006. These projects were bid out in August of 2013. Construction began in 2013 and was completed in 2015. We received grant money and obtained a USDA/RD Loan to pay for this project.

Contract H-Lawrence County Fiscal Court starting installing a water line for Long Fork Rd (5 taps) in 2014 and the line was completed in 2015. Then they gave the lines to Big Sandy Water District.

Contract !-Lawrence County Fiscal Court installed water line for Birch Branch (6 taps). Then they gave the line to Big Sandy Water District.

In December 2015, Big Sandy purchased a 2016 Kraftsman Equipment Trailer for $16,568.00.

Required Financial Statements

The financial statements of Big Sandy Water District (BSWD) reports information of BSWD using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information and its activities. The Statement ofNew Assets included all of Big Sandy Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to BSWD creditors (liabilities). It also provides the basis for evaluating the capital structure of BSWD and assessing the liquidity and financial flexibility of BSWD.

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

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

Financial Analysis

Total assets to total liabilities for 2015 show a ratio of 2.65 to 1 meaning BSWD has $2.65 worth of assets to each $1.00 worth of liabilities. This compares to 2014 at 2.90 to 1 and 2013 at 2.88 to 1.

The Operating Revenue increased 4% in 2015 to $2,574,367 from $2,480,637. Forty-five percent of the revenue goes to purchase water. Hourly employees and benefits received 23%.

Charge-off accounts that were deemed not collectable were $21,039 in 2015 compared to $19,001 in 2014. This is .82% of revenue. That amount is covered by the $59,149 collected as late payment penalties.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Big Sandy Water District's Finances and to demonstrate Big Sandy Water District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact James Blanton or Teresa Brown at (606) 928-2075 or 1-800-354-2933.

Big Sandy Water District
Statement of Net Position
Proprietary Fund Type
December 31, 2015

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	$ 418,660
Cash and cash equivalents - restricted (note 6)	527,891
Accounts receivable - net of allowance for doubtful accounts (note 1)	237,120
Inventory	68,975
Prepaid expenses	11,819
Total Current Assets	1,264,465
Noncurrent Assets	
Capital assets: (note 1)	
Land	39,529
Plant, equipment and lines	19,919,789
Less accumulated depreciation	(7,493,837)
Total Noncurrent Assets	12,465,481
Deferred outflow of resources	107,912
Total Assets & Deferred Outflow of Resources	$ 13,837,858

LIABILITIES

Current Liabilities	
Accrued expenses	$ 152,628
Notes/Bonds payable (note 2)	187,585
Payable from restricted assets	125,402
Total Current Liabilities	465,615
Noncurrent Liabilities	
Notes/Bonds payable (note 2)	4,129,914
Accrued pension & OPEB liabilities	629,451
Total Noncurrent Liabilities	4,759,365
Total Liabilities & Deferred Inflow of Resources	5,224,980

Net Position

Net investment in capital assets	8,147,982
Restricted	402,489
Unrestricted	62,407
Total Net Position	$ 8,612,878

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

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

Revenues	
User fees	$ 2,544,230
Other water revenue	30,137
Total Revenues	2,574,367
Expenses	
Wages	387,696
Commissioners expense	1,721
Taxes & benefits	197,648
Purchased water & power	1,162,138
Materials & supplies	144,674
Contractual services	61,084
Trasnsportation expense	27,291
Equipment expense	17,516
Insurance	21,743
Postage	19,656
Bad debt	18,282
Other expense	22,930
Telephone	6,379
Depreciation	405,207
Total Operating Expenses	2,493,965
Operating Income (Loss)	80,402
Nonoperating Revenues (Expenses)	
Tap fees	43,080
Grant income	4,492
Interest income	939
Donated fixed assets	34,188
Insurance proceeds	2,585
Gain on sale of capital assets	11,102
Interest expense	(161,951)
Net Nonoperating Revenues (Expenses)	(65,565)
Net Income (Loss)	14,837
Total Net Position - beginning	9,086,993
Prior period adjustment	(488,952)
Total Net Position - ending	$ 8,612,878

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

Big Sandy Water District
Statement of Cash Flows
Proprietary Fund Type
December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	$ 2,569,676
Cash paid to employees	(387,696)
Cash paid for general and administrative expenses	(1,662,165)
Net Cash provided by operating activities	519,815
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	939
Customer deposits	(750)
Net Cash provided by investing activities	189
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Note/bond payments	(180,321)
Insurance proceeds	2,585
Tap fees	43,080
Grant revenues	4,492
Purchase of assets	(33,672)
Sale of assets	11,102
Interest paid	(164,166)
Net Cash used in capital and financing activities	(316,900)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	203,104
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	743,447
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 946,551
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	$ 80,402
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(Increase)/Decrease in inventory	(555)
Depreciation	405,207
Prior period adjustment	32,586
(Increase)/Decrease in accounts receivable	(4,691)
Increase/(Decrease) in accounts payable	6,866
Net cash provided by operating activities	$ 519,815

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

Note 1 - Summary of Significant Accounting Policies

The Big Sandy Water District is a water utility which services areas of Boyd, Carter, Johnson and Lawrence Counties. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1981. The District is subject to the regulatory District of the Kentucky Public Service Commission pursuant to KRS 278. 040.

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

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

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

Based on the foregoing criteria there are not other organizations included in these financial statements.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund until it reaches the fully funded level of $233,400. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside $179,091 into this fund at December 31, 2015. The required balance at December 31, 2015 is $125,680.

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2015 was $120,315. The District had set aside $153,693.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net 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.

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.

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

Inventory
The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded as an asset at that time. They are recorded at lower of cost or market valued on the FIFO method.

Cash
At December 31, 2015, the carrying amount of the District's deposits was $946,551 and the bank balance was $1,074,790. Of the bank balance $493,533 was covered by federal deposit insurance and $581,257 was collateralized with securities held by the pledging financial institution's trust department. The District considers all investments with a maturity of three months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents.

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

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

Class	Life
Lines and tanks	50 years
Hydrants	30 years
Meters	20 years
Equipment	10 years
Vehicles	5 years

The District's capitalization policy is as follows: expenditures costing more than $5,000 with an estimated useful life greater than one year are capitalized; all others are expensed.

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

Investments
Investments are carried at cost which is the lower of cost or fair market value.

Accounts Receivable
The receivable reflected in the statements in the amount of $237,120 is net of allowance for uncollectible in the amount of $-0-.

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

Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2014, eight separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A
- Lender – Rural Development
- Balance of loan - $841,500
- Rate – 4.5%
- Principal due January 1
- Interest due January and July 1
- Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note B
Lender – USDA
Balance of loan - $442,500
Rate – 4.5%
Principal due January 1
Interest due January and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note C
Lender – USDA
Balance of loan - $1,050,000
Rate – 2.75%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note D
Lender – USDA
Balance of loan - $383,000
Rate – 4.5%
Principal due January 1
Interest due January 1 and July 1
Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note E
Lender – KRWFC
Balance of loan - $645,000
Rate – Variable
Principal due – January 1
Interest due January 1 and July 1

Note F
Lender – Caterpillar Financial Services
Balance of loan - $7,085
Rate – 3.75%
Principal and interest due – monthly, payment of $1,431

Note G
Lender – KRWFC
Balance of loan - $765,000
Rate – variable
The bonds were sold at a premium of $84,203, which is being amortized over the term of the bond. The unamortized bond premium is recorded as a noncurrent liability. The premium amortization which is a decrease to interest expense was $5,263 for 2015. The unamortized bond premium at December 31, 2015 was $68,414.
Principal due – January 1
Interest due – January 1 and July 1

Note H
Lender – USDA
Balance of loan - $115,000
Rate – 3.25%
Principal due January 1
Interest due January and July 1
Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Schedule of Notes/Bonds Payable	balance 12/31/2014	Additions	Payments	balance 12/31/2015	Current Portion
USDA 91-07	$870,000	$-	$28,500	$841,500	$30,000
USDA 91-10	393,000	-	10,000	383,000	10,500
USDA 91-11	451,500	-	9,000	442,500	9,000
USDA 91-16	1,050,000	-	-	1,050,000	15,500
USDA 91-18	115,000	-	-	115,000	1,500
Kentucky Rural Water 2007	686,000	-	41,000	645,000	44,000
Kentucky Rural Water 2013	835,000	-	70,000	765,000	70,000
Caterpillar	23,643	-	16,558	7,085	7,085
	$4,424,143	$-	$175,058	$4,249,085	$187,585
Bond premium	73,677	-	5,263	68,414	-
	$4,497,820	$-	$180,321	$4,317,499	$187,585

Schedule of maturities

	Principal	Interest		Principal	Interest
2016	187,585	160,012	2026-2030	818,500	315,632
2017	189,000	152,538	2031-2035	542,000	178,637
2018	193,000	144,556	2036-2040	330,500	102,138
2019	198,000	136,351	2041-2045	205,500	59,263
2020	203,500	127,921	2046-2050	204,000	31,983
2021-2025	988,000	510,238	2051-2055	189,500	4,401
				$4,249,085	$ 1,923,670

Note 3 - Leave Policies

The District’s employees are covered by leave policies as follow:

a) sick leave – one day per month to a maximum accumulation of sixty days;
b) annual leave – five days per annum with 1-2 years employment; ten days per annum with 3-9 years employment; fifteen days per annum after 10 years employment. One week of annual leave may be carried forward to the next year, but must be taken by March 31st of that year.

Accumulated leave not paid on termination.

Note 4 - Changes in Capital assets

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

	balance 12/31/14	Transfer/ Additions	Deletions	balance 12/31/15
Land	$39,529	$-	$-	$39,529
Structure & improvements	121,531	-	-	121,531
Distribution system	16,007,583	1,724,688	-	17,732,271
Vehicles	164,944	16,568	(17,150)	164,362
Equipment	1,901,625	-	-	1,901,625
Construction in process	1,673,396	(1,673,396)	-	-
	19,908,608	67,860	(17,150)	19,959,318
Accumulated depreciation	7,105,780	405,207	(17,150)	7,493,837
Net capital assets	12,802,828			12,465,481

Note 5 - Revenue Bonds

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

Note 6 - Restricted Cash

Restricted cash is composed of the following:

Deposit account	$56,423
Depreciation reserve fund	179,091
Debt reserve fund Regions (KRWFC)	138,684
Debt reserve fund (USDA)	153,693
	$527,891

Note 7 - Contingencies

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

Note 8 - Risk Management

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

Note 9 - Investments

The District’s investment policy is governed by the Kentucky Statutes. These requirements authorize the District to invest in obligations backed by full faith and credit of the United States and obligations of any corporation of the United States government. The policy requires that amounts on deposit with financial institutions be collateralized at a rate of 100% of amounts in excess of deposit insurance coverage.

Note 10 – Subsequent Events

The District has evaluated subsequent events through May 24, 2016 the date which the financial statements were available to be issued.

Note 11 – Defined Benefit Pension Plan

General Information About the Pension Plan

Plan description - Regular, full-time, employees of the District are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retierment 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 District to establish and amend the benefit terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky Retirement System issues a publicly available financial report that can be obtained on their website.

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

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

Contributions - Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The District's contractually required contribution rate for the year ended December 31, 2015 was 17.67% & 17.06% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were $59,752 for the year ended December 31, 2015.

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

At December 31, 2015, the District reported a liability of $629,451 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's portion of the net pension liability was based on the District's proportionate share of retirement contributions for the fiscal year ended June 30, 2015. At June 30, 2015 the District's proportionate share was 0.014640%.

For the year ended December 31, 2015, the District recognized pension expense of $75,865. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$5,643	$-0-
Differences between expected and actual Experience	5,232	-
Changes in assumptions	63,481	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,646	
District's contributions subsequent to the measure date	20,910	-0-
Total	$107,912	$-

$20,910 reported as deferred outflows of resources related to pensions 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 ended June 30, 2016. The remaining amount of $87,002 reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	Amount
December 31, 2016	$ 27,998
December 31, 2017	27,998
December 31, 2018	14,586
December 31, 2019	13,881
December 31, 2020	2,539
Thereafter	-0-
Total	$ 87,002

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

Inflation	3.25%
Salary increases	4.00% average, including inflation
Investment rate of return	7.50%, 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 actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008-June 30, 2013.

The long-term expected return on 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 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 and net of investment expense) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

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

Discount rate - The discount rate used to measure the total pension liability was 7.500%. 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 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	$803,572	$629,451	$480,331

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

Note 12- Prior period adjustment

A prior period adjustment was made in the amount of $488,952 to record net pension liability, $629,451, deferred inflows, ($87,002) and pension expense, ($53,497).

Note 13- Change in accounting principle

During 2015 the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires the District to report a net pension liability, pension expense and pension related deferred inflows and outflows based on their proportionate share of collective amounts for all the governments in the plan. As a result of adopting this statement a prior period adjustment was made and can be found in note 12.

REQUIRED SUPPLEMENTAL INFORMATION

Big Sandy Water District
Schedule of Proportionate Share of Net Pension Liability
12/31/2015

	6/30/2015
PHA's proportion of the net pension liability	0.014640%
PHA's proportionate of the net pension liability	629,451
PHA's covered employee payroll	334,849
PHA's proportionate share of the net pension liability as a percentage of its covered employee payroll	187.98%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

Big Sandy Water District
Schedule of Pension Contributions
12/31/2015

	6/30/2015
Contractually required contribution	42,693
Contributions in relation to the contractually required contribution	42,693
Contribution deficiency	-
PHA's covered payroll	334,849
Contributions as a percentage of covered employee payroll	12.75%

Changes of benefit terms: 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

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

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to7.50%.
- 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.

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

SUPPLEMENTAL INFORMATION

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

Board of Commissioners
Big Sandy Water District
Catlettsburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Big Sandy Water District as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Big Sandy Water District 's basic financial statements and have issued our report thereon dated May 24, 2016.

Internal Control Over Financial Reporting

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

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.

John T. Lane & Associates, LLC
Mount Sterling, Kentucky
May 24 2016

Big Sandy Water District
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
for the years ended December 31, 2015 and 2014

	2015	2014
Revenues		
User fees	$ 2,544,230	$ 2,451,818
Other water revenue	30,137	28,819
Total Revenues	2,574,367	2,480,637
Total Operating Expenses	2,493,965	2,378,838
Operating Income (Loss)	80,402	101,799
Nonoperating Revenues (Expenses)		
Grants	4,492	590,772
Tap fees	43,080	69,627
Donated fixed assets	34,188	109,070
Interest income	939	1,175
Other nonoperating revenues	2,585	195,889
Gain on sale of capital assets	11,102	-
Interest expense	(161,951)	(178,097)
Net Nonoperating Revenues (Expenses)	(65,565)	788,436
Net Income (Loss)	$ 14,837	$ 890,235