



**East Clark County Water District**

**Winchester, Kentucky**

Financial Statements

And Independent Auditors' Report

For The Years Ended

December 31, 2015

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
East Clark County Water District  
Winchester, Kentucky

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities of the East Clark 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 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinion.

### ***Opinion***

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

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-7 and 30-32 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 District's basic financial statements. The statement of functional expenses for the year ended December 31, 2015 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statement of functional expenses for the year ended December 31, 2015 are the responsibility of management and were derived from and relates 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

statement of functional expenses for the year ended December 31, 2015 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standard***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

***Baldwin CPAs, PLLC***

Baldwin CPAs, PLLC

March 16, 2016

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
DECEMBER 31, 2015

East Clark County Water District (the District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal years ending December 31, 2015, 2014, and 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements in order to enhance their understanding of the District's financial performance.

### **2015 FINANCIAL HIGHLIGHTS**

- The District's operating revenues and operating expenses remained consistent with the prior year.
- The District's total assets decreased \$176,258 and total liabilities increased \$249,829, resulting in an increased total net position of \$113,105 or 2.9% from the prior year.
- Interest income for the year was \$6,863, which is a 115.1% increase from 2014. The increase reflects the slight increase in interest rates in 2015.
- The District implemented a new required reporting standard from the Governmental Accounting Standards Board (GASB) that resulted in significant changes in financial reporting for 2015.
- GASB No. 68 – Accounting and Financial Reporting for Pensions – required the District, for the first time, to record its proportionate share of the County Employees' Retirement System's (CERS) net pension liability. The District has recorded a net pension liability of approximately \$340 thousand as well as related deferred outflows and inflows of resources as a result of the new standard.

### **GENERAL INFORMATION ABOUT EAST CLARK COUNTY WATER DISTRICT**

The District recognized the need for a central water supply for the residents of the eastern section of Clark County, Kentucky early in its history. The District was organized in 1967 pursuant to Chapter 74 of the Kentucky Revised Statutes.

Management is vested in a five-member commission consisting of a chairman and four commissioners appointed by Clark County Fiscal Court.

The District relies on Winchester Municipal Utilities and Kentucky American Water Company for its water supply. Water is pumped to approximately 2400 customers through more than 197 miles of water mains. The Kentucky Public Service Commission (PSC) regulates the District in matters of rates, rules, and levels of service.

### **DISTRICT FINANCIAL ANALYSIS**

The Statements of Net Position includes all of the District's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District. A summary of the District's Statements of Net Position is presented below.

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2015

Condensed Statements of Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 2,137,655	\$ 2,743,350	\$ 2,673,382
Capital assets, net of depreciation	<u>8,510,925</u>	<u>8,081,488</u>	<u>8,295,756</u>
Total assets	<u>10,648,580</u>	<u>10,824,838</u>	<u>10,969,138</u>
Deferred Outflows of resources	<u>69,775</u>	<u>-</u>	<u>-</u>
Debt outstanding	1,855,790	2,118,748	2,375,328
Other liabilities	<u>502,144</u>	<u>489,015</u>	<u>216,045</u>
Total liabilities	<u>2,357,934</u>	<u>2,607,763</u>	<u>2,591,373</u>
Deferred inflows of resources	<u>30,241</u>	<u>-</u>	<u>-</u>
Investment in capital assets, net of related debt	6,655,135	5,890,340	\$ 5,857,898
Restricted	136,201	136,201	136,201
Unrestricted	<u>1,538,844</u>	<u>2,190,534</u>	<u>2,383,666</u>
Total net position	<u>\$ 8,330,180</u>	<u>\$ 8,217,075</u>	<u>\$ 8,377,765</u>

Net position increased \$113,105 from 2015 to 2014, an increase of 2.90%. Debt outstanding has decreased \$262,958 or 12.41% from 2014.

Condensed Statements of Activities and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 1,437,629	\$ 1,511,684	\$ 1,367,696
Non-operating revenues	<u>10,103</u>	<u>5,608</u>	<u>452,553</u>
Total revenues	<u>1,447,732</u>	<u>1,517,292</u>	<u>1,820,249</u>
Operating expenses	975,912	994,908	948,077
Depreciation	314,732	312,547	312,278
Non-operating expense	<u>70,804</u>	<u>70,249</u>	<u>532,653</u>
Total expenses	<u>1,361,448</u>	<u>1,377,704</u>	<u>1,793,008</u>
Net income	86,284	139,588	27,241
Customer connection fees	<u>26,821</u>	<u>18,269</u>	<u>7,256</u>
Changes in net position	113,105	157,857	34,497

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2015

The District's total revenue, excluding grants, decreased by \$69,560 or 4.58%. The decrease is due in part to decrease in water service due to the increase in rainy weather during the summer. Total expenses decreased \$2,126 or 0.15%. The increase in depreciation in 2015 of \$2,185 or 0.70% is attributed the number of assets, which were fully depreciated at the end of 2014. In 2015, non-operating expense consists of interest expense on long-term debt of \$70,804. In 2014, non-operating expense consists of interest expense on long-term debt of \$104,206, plus \$428,387 of construction expenses related to a construction agreement with the Kentucky Department of Transportation.

**CAPITAL EXPENDITURES**

Condensed Schedule of Capital Assets

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital assets	\$13,216,352	\$12,493,548	\$12,395,269
Accumulated depreciation	<u>(4,705,427)</u>	<u>(4,412,060)</u>	<u>(4,099,513)</u>
	<u>\$ 8,510,925</u>	<u>\$ 8,081,488</u>	<u>\$ 8,295,756</u>

In 2015, the Districted started and completed upgrades to its Ecton Road and Little Stoner Road lines and a line extension on Wilderness Road. The project costs of \$654,000 were paid for from the District's reserve funds. There were no construction projects in 2014. In 2013, the District completed and placed in service the tank on KY Highway 15 for a total cost of \$933,041. The project was financed with funds provided by state grants and the District's reserves. Equipment acquisitions were financed from the District's reserve funds in 2015, 2014 and 2013. Contributions to capital amounted to \$26,821 in 2015, \$18,269 in 2014, and \$7,256 in 2013, for new tap-ons to existing lines.

**BONDS AND CAPITAL LEASE OBLIGATIONS**

Condensed Schedule of Debt

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Bonds	\$ 1,215,790	\$ 1,292,748	\$1,371,328
Capital lease obligations	<u>640,000</u>	<u>826,000</u>	<u>1,004,000</u>
Total	<u>\$ 1,855,790</u>	<u>\$ 2,118,748</u>	<u>\$2,375,238</u>

The District made all of its scheduled debt payments during 2015, 2014, and 2013. During 2013, the District had new borrowing of \$130,000 from KRWFC Flexible Term Program. The rate of interest varies from 2.3% to 4.8% over the life of the bond. The net present value of the cash flow savings resulting from refinancing was \$15,129 over the life of the new bonds.

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2015

**ECONOMIC FACTORS AND FUTURE BUDGET ISSUES**

The District continues to sustain slow growth. New tap-ons increased \$8,552 from 2014 to 2015. Growth in 2016, is anticipated to remain at slow levels.

During 2015, the District's water rates did not increase. The District buys water for distribution to its customers. In the future, as costs of purchased water rises, rate increases from WMU and Kentucky American Water Company who supply water to the District will be passed on to District customers.

**DISTRICT CONTACT INFORMATION**

This financial report is designed to provide our customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact East Clark County Water District, 118 Hopkins Street, Winchester, KY 40392 or by phone at (859) 745-1458 or by email at [wdballard@bellsouth.net](mailto:wdballard@bellsouth.net).

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 669,660
Investments	1,185,709
Receivables	
Customer accounts	113,609
Unbilled	40,964
Other accounts	-
Accrued interest	2,292
Inventory, at cost	28,001
Prepaid expenses	14,367
	14,367
Total current assets	2,054,602

Restricted assets:

Cash and cash equivalents	83,053
	83,053
Total restricted assets	83,053

Capital assets:

Property, plant and equipment, net of depreciation	8,452,881
Land	58,044
	58,044
	8,510,925
Total assets	10,648,580

Deferred outflows of resources	69,775
	69,775

Total assets and deferred outflows of resources	\$ 10,718,355
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(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF NET POSITION (CONTINUED)  
DECEMBER 31, 2015

**LIABILITIES AND NET POSITION**

Current liabilities:	
Accounts payable, trade	29,731
Accrued compensated absences	17,212
Accrued interest payable	23,474
Accrued liabilities	10,639
Lease obligations - current portion	194,000
Refundable customer deposits	82,440
Revenue bonds - current portion	82,000
	<u>439,496</u>
Long-term liabilities:	
Revenue bonds net of current portion	1,133,790
Obligations under long-term lease net of current portion	446,000
Net pension liability	338,648
	<u>1,918,438</u>
Total long-term liabilities	<u>1,918,438</u>
Total liabilities	<u>2,357,934</u>
Deferred inflows of resources	<u>30,241</u>
Net Position	
Investment in capital assets, net of related debt	6,655,135
Restricted:	
Restricted for debt retirement	117,001
Restricted for plant renewal and replacement	19,200
Unrestricted	1,538,844
	<u>8,330,180</u>
Total net position	<u>8,330,180</u>
Total liabilities, net position and deferred inflows of resources	<u>10,718,355</u>

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating revenues	
Water sales	\$ 1,399,366
Other operating income	<u>38,263</u>
Total operating revenues	<u>1,437,629</u>
Operating expenses	
Transmission, distribution and services	335,982
Purchased water	326,081
General and administrative	313,849
Depreciation	<u>314,732</u>
Total operating expenses	<u>1,290,644</u>
Operating income	<u>146,985</u>
Non-operating revenues (expenses):	
Interest income	6,863
Customer connection fees	26,821
Gain on disposal of assets	3,240
Interest expense	<u>(70,804)</u>
Total non-operating revenues (expenses)	<u>(33,880)</u>
Change in net position	113,105
Net position at the beginning of the year	8,535,622
Prior period adjustment related to net pension liability	<u>(318,547)</u>
Net position at the beginning of the year, as adjusted	8,217,075
Net position at the end of the year	<u><u>\$ 8,330,180</u></u>

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015

Cash flows from operating activities:	
Cash received from customers	\$ 1,324,020
Cash payments to suppliers for goods and services	(479,522)
Cash payments to employees and professional contractors for services	<u>(314,307)</u>
Net cash provided by operating activities	<u>530,191</u>
Cash flows from capital and related financing activities:	
Principal payments on bonds and lease obligations	(263,916)
Interest payments on bonds and lease obligations	(70,804)
Construction of fixed assets	(681,836)
Equipment purchased	(40,967)
Disposal of fully depreciated assets	(21,366)
Sale of surplus equipment	3,240
Customer connection fees	<u>26,821</u>
Net cash used by capital and related financing activities	<u>(1,048,828)</u>
Cash flows from investing activities:	
Sale (acquisition) of unrestricted investments	466,212
Interest received on cash deposits and investments	<u>6,863</u>
Net cash provided by investing activities	<u>473,075</u>
Increase (decrease) in cash and cash equivalents	(45,562)

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2015

Increase (decrease) in cash and cash equivalents (from page 11)	\$ (45,562)
Cash and cash equivalents at the beginning of the year	<u>798,275</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 752,713</u></u>
Reconciliation of cash and cash equivalents at the end of the year	
Unrestricted cash and cash equivalents	\$ 669,660
Restricted cash and cash equivalents	<u>83,053</u>
Total cash and cash equivalents at the end of the year	<u><u>\$ 752,713</u></u>
Reconciliation of income from operations to net cash provided by operating activities:	
Income from operations	\$ 146,985
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	308,130
(Increase) decrease in:	
Customer accounts receivable	(490)
Unbilled receivable	1,658
Other receivables	94,059
Inventory	(407)
Prepaid expenses	(899)
Increase (decrease) in:	
Accounts payable, trade accounts	(3,245)
Accrued liabilities	(13,675)
Accrued compensated absences	(1,521)
Accrued interest payable	1,429
Changes in net pension liability	(11,873)
Customer deposits	<u>10,040</u>
Net cash provided by operating activities	<u><u>\$ 530,191</u></u>

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Clark County Water District is a "Class B" water district located in Clark County, Kentucky, with principal offices located at 118 Hopkins Lane, Winchester, Kentucky. It was organized in 1967, under Kentucky Revised Statutes, Chapter 74. It is overseen by a five-member commission consisting of a chairman and four commissioners, all appointed by Clark County Fiscal Court. Water is purchased from Winchester Municipal Utilities and Kentucky American Water Company and resold to approximately 2,400 residential and commercial customers.

Basis of Accounting and Measurement Focus

The District is accounted for as a governmental proprietary fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

The District is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water to customers in connection with the District's ongoing operations. The principal operating revenues are charges to customers for water sales and services. Operating expenses include the cost of purchased water and other related service expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues and expenses generally result from contracts with other entities to move existing water lines as required by road and railroad maintenance and improvements.

Property and Equipment

The District capitalizes expenditures for property and equipment of \$1,000 or more. Property and equipment are stated at cost. Donations are recorded at their fair market value at the date of transfer. No donated assets were received in the years ended December 31, 2015 and 2014.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation of exhaustible fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets. Depreciation is provided for financial statement purposes by the straight-line method over the following estimated useful lives:

Lines and storage	50 years
Building	30 years
Pumps and treatment equipment	20 years
Maintenance equipment and vehicles	3-10 years
Office furniture and equipment	3-5 years

Capital Grants and Subsidies

The purchase of property and equipment acquired by grants and subsidies restricted for that purpose are capitalized and the grant or subsidy is recorded as non-operating revenue. These grants and subsidies are not subject to repayment. Certain plant assets have been contributed by customers. These contributions are not subject to repayment.

Receivables

All receivables are reported at their gross value. Estimated un-billed revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. No allowance for doubtful accounts is provided. The District identifies and writes off uncollectible accounts as they occur. Bad debts written off as of December 31, 2015 and 2014 were \$2,967 and \$3,118, respectively.

Vacation, Sick Leave, and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Paid vacation time accrues at the rate of one to three weeks based on the length of employment. Unused vacation time may be carried forward from one year to the next with certain limitations. Other compensated absences do not vest and are recorded as expenditures when they are paid.

Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky County Employee Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The District includes in cash and cash equivalents, cash on hand and unrestricted cash in checking, money market accounts, federated treasury obligation funds, and unrestricted certificates of deposit with maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market value on a first-in, first-out basis.

Investments

Investments consist of certificates of deposits with maturity dates of three months or more. Management believes the face value of the certificates approximates their market value. Certificates of deposit in excess of FDIC insurance are collateralized by securities held by the pledging institution.

Interest

Interest is charged to expense as incurred except for interest related to loans used for construction projects, which is capitalized net of interest earned on such borrowed construction funds. Interest capitalization ceases when the construction project is substantially complete. There was no capitalized interest during 2015 and 2014.

Net Position Classifications

The District records restrictions for portions of its net position which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriation. Unrestricted portions of net position indicate amounts which are available for appropriation in future periods. Restrictions in net position are classified as follows:

- **Investment in capital assets, net of related debt** includes the District's capital assets, (net of accumulated depreciation) reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted for Debt Service** includes assets that have been set aside as required by statute or bond covenant for the future payment of the District's Debt.
- **Restricted for Plant Renewal and replacement** includes assets that have been set aside for future additions, repairs or replacement of property, plant or infrastructure.

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2015

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS

The District investment policies conform to state statutes. The District deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Investments include certificates of deposit with maturities of one year with banks. Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky Revenue Bonds. The District’s deposits and investments are collateralized with securities held by the bank’s trust department in the District’s name or letter of credit held by a third party in the District’s name.

*Custodial Credit Risk-Deposits.* Custodial credit risk is the risk that in the event of the failure of a financial institution, the District’s deposits and/or investments may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2015 \$918,659 of the District’s total deposits at banks of \$1,939,361, were exposed to custodial credit risk as follows. Federal depository insurance covered \$1,056,572 of the District’s deposits as of December 31, 2015:

	<u>2015</u>
Uninsured and collateral held by third party in the District's name	\$ 630,299
Uninsured and collateral held by pledging bank's trust department in the District's name	<u>288,360</u>
	<u>\$ 918,659</u>

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH

The Bond Resolutions require the creation of various separate deposit accounts, each designated for a specific purpose, as defined in the resolution. A summary of the required accounts and their significant provisions follows:

Revenue Fund

All income to the District is deposited to the Revenue Fund, and then transferred to the other funds as indicated below.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH (CONTINUED)

Bond and Interest Sinking Funds and Sinking Fund Reserves

The Bond and Interest Sinking Funds were established to provide sources of funds for the payment of bond principal and interest, currently due. Each month funds equal to the total of (1) one-sixth of the next succeeding semiannual interest payment plus (2) one-twelfth of the next annual bond principal payments are to be transferred to the funds. For the years ended December 31, 2015 and 2014 the required Sinking Fund Reserve balances were \$117,001 and \$117,001, respectively.

Depreciation Reserve Fund

The Depreciation Reserve Fund was established to provide funds for extraordinary repairs, betterments, and expansion. The District is required to deposit \$160 into the fund each month until the accumulated balance equals \$19,200. Funds may be used as needed, but the balance must be restored to \$19,200, as soon as possible, so long as any bonds are outstanding and unpaid.

Operation and Maintenance Fund

Monthly sums, sufficient to meet the current expenses of operating and maintaining the system, are to be transferred from the Revenue Fund. The balance shall not be in excess of an amount sufficient to cover anticipated expenditures for a two-month period, which is approximately \$150,000. The balance at December 31, 2015 and 2014 is \$30,711 and \$70,928, respectively.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Activity for plant and equipment, which is capitalized by the District for the year ended December 31, 2015, is summarized below:

	Balance <u>Dec. 31, 2014</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>Dec. 31, 2015</u>
Non depreciable assets:				
Land	\$ <u>58,044</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>58,044</u>
Depreciable assets:				
Buildings and improvements	450,145	-	-	450,145
Pumps	92,232	2,904	-	95,136
Lines and storage	10,443,333	652,498	-	11,095,831
Meters	963,189	46,480	-	1,009,669
Office equipment	63,472	2,982	-	66,454
Vehicles	170,337	33,738	21,366	182,709
Maintenance equipment	<u>252,797</u>	<u>5,567</u>	<u>-</u>	<u>258,364</u>
Total depreciable assets	<u>12,435,505</u>	<u>744,169</u>	<u>21,366</u>	<u>13,158,308</u>
Less accumulated depreciation for:				
Building and improvements	217,575	19,149	-	236,724
Pumps	44,565	2,501	-	47,066
Lines and storage	3,492,384	212,723	-	3,705,307
Meters	342,482	49,321	-	391,803
Office equipment	61,287	1,292	-	62,579
Vehicles	137,726	11,829	(21,366)	128,189
Maintenance equipment	<u>116,042</u>	<u>17,717</u>	<u>-</u>	<u>133,759</u>
Total accum. depreciation	<u>4,412,061</u>	<u>314,732</u>	<u>(21,366)</u>	<u>4,705,427</u>
Depreciable assets, net	<u>8,023,444</u>	<u>429,437</u>	<u>-</u>	<u>8,452,881</u>
Total capital assets, net of depreciation	<u>\$ 8,081,488</u>	<u>\$ 429,437</u>	<u>\$ -</u>	<u>\$ 8,510,925</u>

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015

NOTE 5 – LONG TERM DEBT AND LEASES

The District issues revenue bonds to finance improvements and extensions to water lines. During 2015 and 2014 the District issued no new revenue bonds.

At December 31, 2015, East Clark County Water District had the following long term debt and leases outstanding:

2015 Bonds:

<u>Discription</u>	<u>Balance Dec. 31, 2014</u>	<u>New Issue</u>	<u>Principal Payment</u>	<u>Balance Dec. 31, 2015</u>	<u>Due within one year</u>
East Clark County Water District Waterworks Bonds, Series of 1978, with interest of 5% payable January 1 and July1	\$ 51,000	\$ -	\$ 16,000	\$ 35,000	\$ 17,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2010C Bonds, with interest of 2.2% to 4.35% payable January 1 and July 1	640,000	-	30,000	610,000	35,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2012C Bonds, with interest of 2.15% to 4.275% payable January 1 and July 1	465,000	-	20,000	445,000	20,000
East Clark County Water District Water Works Refunding Bonds, Series 201C, with interest of 2.3% to 4.8% payable January 1 and July 1	<u>120,000</u>	<u>-</u>	<u>10,000</u>	<u>110,000</u>	<u>10,000</u>
	\$ <u>1,276,000</u>	\$ <u>-</u>	\$ <u>76,000</u>	\$ <u>1,200,000</u>	\$ <u>82,000</u>

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2015

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

The debt service on the bonds is as follows:

Due the year ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 82,000	\$ 46,105	\$ 128,105
2017	83,000	43,213	126,213
2018	65,000	40,213	105,213
2019	70,000	37,911	107,911
2020	75,000	35,365	110,365
2021-2025	390,000	148,612	538,612
2026-2030	400,000	71,254	471,254
2031	<u>35,000</u>	<u>1,496</u>	<u>36,496</u>
	<u>\$ 1,200,000</u>	<u>\$ 424,169</u>	<u>\$ 1,624,169</u>

Capital leases

The District is obligated under financing arrangements accounted for as capital leases. The cost and accumulated depreciation of assets acquired under these arrangements is included with other owned assets disclosed in Note 4 - Property, Plant, and Equipment. Capital lease obligations and changes for 2015 are as follows:

	<u>Balance</u> <u>December 31, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>December 31, 2015</u>	<u>Due in</u> <u>one Year</u>
KACO #1	\$ 65,000	\$ -	\$ 32,000	\$ 33,000	\$ 33,000
KACO #2	311,000	-	73,000	238,000	76,000
KACO #3	<u>450,000</u>	<u>-</u>	<u>81,000</u>	<u>369,000</u>	<u>85,000</u>
	<u>\$ 826,000</u>	<u>\$ -</u>	<u>\$ 186,000</u>	<u>\$ 640,000</u>	<u>\$ 194,000</u>

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2015

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

The following is a schedule of future minimum lease payments, together with the net present value of the minimum lease payments at December 31, 2015:

<u>Year ending December 31,</u>	<u>Lease Payments</u>
2016	\$ 209,204
2017	182,250
2018	186,020
2019	<u>100,851</u>
Total minimum lease payments	678,325
Less:	
Amount representing interest at the District's incremental borrowing rate	<u>(38,325)</u>
	<u>\$ 640,000</u>

NOTE 6 – INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and customers; or acts of God. The District insures against these risks through insurance policies obtained from commercial vendors. The District has pooled its risk for worker's compensation insurance. The District pays an annual premium for insurance coverage and is liable for additional premium assessments as determined by the pool. At December 31, 2015 and 2014, no additional premium assessment had been made. Other insurable risks are covered by policies with conventional insurance companies.

NOTE 7 - RETIREMENT PLAN

General Information about the Plan

Plan description: Employees of East Clark County Water District are provided with pensions through the County Employees Retirement System (CERS) a system within the Kentucky Retirement Systems (KRS). CERS is a cost-sharing multiple-employer defined benefit pension plan administered by KRS. CERS is governed by Kentucky Revised Statute 78.510 to 78.852 and Title 105 of the Kentucky Administrative Regulations.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601.

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2015

NOTE 7 - RETIREMENT PLAN CONTINUED

Benefits provided: CERS provides retirement, retiree health, disability and death benefits. Retirement benefits are determined by a formula established by statute as follows:

- Average salary* – usually the average of the highest 3 or highest 5 years of salary. Times
- Benefit factor* – A percentage based upon the retirement plan, the type of service and the timing of the employee’s service. Times
- Years of Service Credit* – Service earned for employment, purchased service credit, and service credit awarded for accumulated sick leave at retirement provided the employer participates in a sick leave program. Equals
- Annual Benefit.*

Retirement eligibility and benefits: Employees must meet certain age and/or service credit requirements before they can begin receiving retirement benefits. In KRS, the retirement eligibility requirements vary based upon the type of coverage (non-hazardous or hazardous) and the date the employee first began participating in the systems. The following table shows the requirements to earn an unreduced benefit (no penalties) and a reduced benefit (penalties applied for years short of reaching unreduced benefit).

<u>System</u>	<u>Unreduced Benefit</u>	<u>Reduced Benefit</u>
CERS Non- Hazardous	<u>Participating prior to 9/1/2008:</u> <ul style="list-style-type: none"> <li>• Any age with at least 27 years if service; or</li> <li>• Age 65 with at least 4 years of service</li> </ul> <u>Participating on or after 9/1/2008:</u> <ul style="list-style-type: none"> <li>• Must meet rule of 87 (age + service equals this value) and must be at least 57 years of age; or</li> <li>• Age 65 with at least 5 years of service.</li> </ul>	<u>Participating Prior to 9/1/2008:</u> <ul style="list-style-type: none"> <li>• Age 55 with at least 5 years of service; or</li> <li>• Any age with at least 25 years of service</li> </ul> <u>Participating on or after 9/1/2008:</u> <ul style="list-style-type: none"> <li>• Age 60 with at least 10 years of service.</li> </ul> <i>Note: Reduction actuarially determined for each year short of unreduced benefit.</i>

Employees can also purchase different types of service credit (i.e. military service, federal service) and can use the purchase service to meet the service requirements for retirement eligibility listed above. In addition, employees of CERS agencies receive additional service credit for accumulated sick leave at retirement that can also be used to meet the service requirements for retirement eligibility listed above. However, the ability to use purchased service and sick leave service credit for retirement eligibility has been limited for new participants over time. New participants on or after 8/1/04 cannot use most service purchases towards meeting retirement eligibility requirements, and new participants on or after 9/1/2008 are further restricted. In addition, sick leave service credit for new participants on or after 9/1/2008 cannot be used for determining retirement eligibility.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015

NOTE 7 - RETIREMENT PLAN CONTINUED)

The benefit factor for CERS non-hazardous is 2.2% if participating before 8/1/04 or 2.0% if participating on or after 8/4/04 and before 9/1/08. An easy way to view the benefit structure is to look at the benefit factor as an income replacement rate. A retiring employee with 30 years of service and a benefit factor of 2.0 % would receive 60% (2% X 30 years) of the employee's average salary. The factors for years of service less than 30 years are as follows: 10 years or less = 1.10%, 10 to 20 years = 1.3%, 20 to 26 years = 1.5%, 27 to 30 years = 1.75%, 30 years and over = 2.0%.

Health insurance benefits after retirement: The system also provides access to group rates on medical insurance for retired members, their spouse, and dependents. Coverage for retirees not eligible for Medicare is provided through the Kentucky Employees Health Plan. Coverage for Medicare eligible retirees is provided through a plan administered by or contracted through the retirement systems that then coordinates with Medicare for delivery of health benefits.

Disability and death benefits: CERS provides benefits to employees who become disabled or die before retirement. Both disability and death benefits vary based upon age and years of service at the time of disability or death. After retirement, death benefits left to the retiree's beneficiary vary based upon the payment options selected at retirement. In addition, the system provides a lump sum \$5,000 benefit to retirees with at least 4 years of service.

Contributions: Contributions to the pension plan are prescribed by state statutes. Employees are required to contribute 5% of their annual wages. The KRS Board of Trustees is required by KRS 61. 565 to determine the employer contribution rates based upon an annual actuarial valuation of the plan. Rates are established for both years in the biennium and approved by the legislature. Rates cannot be changed for the second year of the biennium. The District's contractually required contribution rate for the year ended December 31, 2015, was 17.67% of annual payroll, actuarially determined as an amount that, when combined with the 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 \$46,574 for the year ended December 31, 2015.

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

As of December 31, 2015, the District reported a \$338,648 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 upon a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2015, the District's proportion was 0.010438% of the net pension liability.

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2015

NOTE 7 - RETIREMENT PLAN (CONTINUED)

For the year ended December 31, 2015, the District recognized pension expense of \$27,105. 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	\$ -	\$ 30,241
District contributions subsequent to the measurement date	<u>69,775</u>	<u>-</u>
Total	<u>\$ 69,775</u>	<u>\$ 30,241</u>

The District reported \$69,775 as deferred out flows of resources related to pensions resulting from District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the years ended December 31, 2016 and 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31</u>	
2016	\$ 7,560
2017	7,560
2018	7,560
2019	7,561

Actuarial assumptions: The assumptions and methods used in the valuation were based on the actuarial experience study prepared for KRS as of June 30, 2008, submitted August 14, 2009, and adopted by the KRS Board of Trustees on August 20, 2009. The 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 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015

NOTE 7 - RETIREMENT PLAN (CONTINUED)

The rates of mortality for the period after service retirement are according to 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 Annuity Mortality Table set forward 5 years 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.

For GASB 68 purposes assets are equal to the market value of assets. For funding purposes, assets are equal to actuarial value. The actuarial value of assets recognized a portion of the difference between the market value of assets and the expected market value of assets, based on the assumed valuation rate of return. The mount recognized each year is 20% of the difference between market value and expected market value.

Discount rate: The discount rate used to measure the total pension liability was 7.75 percent. 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.

Long-term rate of return: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluation 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 weighing 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 cover a longer timeframe. 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 discount rate does not use a municipal bond rate. The projected future benefit payments for all current plan members were projected through 2116.

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2015

NOTE 7 - RETIREMENT PLAN (CONTINUED)

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

<u>Asset Class</u>	<u>Target Allocation</u>	Long-Term Expected Rate of <u>Return</u>
Domestic equity	30%	8.45%
International equity	22	8.85
Emerging market equity	5	10.50
Private equity	7	1.25
Real estate	5	7.00
Core US fixed income	10	5.25
High yield US fixed income	5	7.25
Non-US fixed income	5	5.50
Commodities	5	7.75
TIPS	5	5.00
Cash	<u>1</u>	3.25
Total	100%	

*Sensitivity Analysis:* The following presents the net pension liability of the KRS, calculated using the discount rate of percent, as well as what the KRS's net position 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 for non-hazardous (\$ thousands)

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75)</u>
KRS's net pension liability	\$4,269,383	\$3,244,377	\$2,338,760

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>
District's proportionate share of the net pension liability	\$ 445,638	\$ 338,648	\$ 244,120

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015

NOTE 7 - RETIREMENT PLAN (CONTINUED)

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

NOTE 8 - PURCHASED WATER

The District entered into a written agreement to purchase all of its water from Winchester Municipal Utilities (WMU). The term of the contract is for twenty years ending July 15, 2019 with an option to renew for an additional period of twenty years. The District purchases water at \$1.72 per 100 cubic feet of water. This rate is subject to periodic increases by WMU. With the approval of the Public Service Commission, the District may pass these rate increases along to its customers. Water is delivered to the District by meters maintained by WMU.

NOTE 9 – PRIOR PERIOD ADJUSTMENT

Net Position decreased by \$318,547 as a result of adjustments to the net pension liability and the corresponding deferred outflows. As described in Note 7 regarding the District's participation in the County Employee's Retirement Plan, the Government Accounting Standards Board's Statement No. 68 became effective for 2015. The new standard required the District to report its proportionate share of the net pension liability and related deferred outflows of resources and deferred inflows of resources.

NOTE 10 – SUBSEQUENT EVENT

The district has evaluated subsequent events through March 16, 2016, the date on which the these financial statements were available to be issued.

In January 2016, the District paid the final principal and interest payment on the lease obligation referred to as KACO #1.

## SUPPLEMENTAL SCHEDULES

See accompanying notes to the required supplementary information.

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 326,081	\$ -	\$ -	\$ 326,081
Depreciation	-	-	-	314,732	314,732
Salaries	148,907	-	114,729	-	263,636
Employee benefits	63,948	-	49,270	-	113,218
Supplies	45,704	-	9,111	-	54,815
Repairs and maintenance	5,105	-	-	-	5,105
Outside services	12,902	-	14,291	-	27,193
Technology	550	-	-	-	550
Commissioners' salaries	-	-	30,000	-	30,000
Payroll tax expense	14,627	-	11,269	-	25,896
Professional fees	-	-	19,150	-	19,150
Utilities	22,767	-	7,597	-	30,364
Truck expense	19,732	-	2,103	-	21,835
Equipment rental	651	-	-	-	651
Fuel for equipment	1,149	-	-	-	1,149
Insurance	-	-	27,449	-	27,449
Postage	-	-	12,342	-	12,342
Bad debts	-	-	2,967	-	2,967
Miscellaneous	-	-	940	-	940
Telephone	3,388	-	4,158	-	7,546
Dues and subscriptions	0	-	2,274	-	2,274
Loading station expense	1,008	-	-	-	1,008
Employee training and seminars	-	-	614	-	614
PSC assessment	-	-	2,874	-	2,874
Uniforms	-	-	1,901	-	1,901
Lab testing	4,911	-	-	-	4,911
Travel and meals expense	-	-	810	-	810
Capitalized overhead allocation	(9,367)	-	-	-	(9,367)
	<u>\$ 335,982</u>	<u>\$ 326,081</u>	<u>\$ 313,849</u>	<u>\$ 314,732</u>	<u>\$ 1,290,644</u>

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN NET ASSETS - BUDGET  
AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015 Budget	2015 Actual	Favorable (Unfavorable)
Operating revenues:			
Water sales	\$ 1,362,739	\$ 1,399,366	\$ 36,627
Other operating income	37,261	38,263	1,002
Total operating revenues	<u>1,400,000</u>	<u>1,437,629</u>	<u>37,629</u>
Operating expenses:			
Operation and maintenance	1,015,000	950,016	64,984
Depreciation and amortization	332,000	314,732	17,268
Taxes	33,300	25,896	7,404
Total operating expenses	<u>1,380,300</u>	<u>1,290,644</u>	<u>89,656</u>
Operating income	<u>19,700</u>	<u>146,985</u>	<u>127,285</u>
Non-operating revenues (expenses):			
Other revenue	-	-	-
Interest income	6,000	6,863	863
Sale/disposal of surplus equipment	-	3,240	3,240
Other expenses	-	-	-
State grants and customer connection fees	12,000	26,821	14,821
Interest expense	(74,000)	(70,804)	3,196
Total non-operating revenues (expenses)	<u>(56,000)</u>	<u>(33,880)</u>	<u>22,120</u>
Change in net position	<u>\$ (36,300)</u>	<u>\$ 113,105</u>	<u>\$ 149,405</u>

EAST CLARK COUNTY WATER DISTRICT  
SCHEDULE OF CONTRIBUTIONS TO CERS PENSION PLAN  
DECEMBER 31, 2015

Contractually required contribution	\$ 46,844
Contributions in relation to the contractually required contribution	<u>(46,844)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Districts covered payroll (January-June)	\$ 270,085
Contribution as a percent of covered payroll	17.34%

EAST CLARK COUNTY WATER DISTRICT  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 DECEMBER 31, 2015

District's proportion of the net pension liability (asset)	0.010438%
District's proportionate share of the net pension liability (asset)	\$ 338,648
Districts covered payroll (January-June)	\$ 270,085
District's proportionate share of the net pension Liability (asset) as a percentage of the covered payroll	125.39%
Plan fiduciary net position as a percentage of the total pension liability	68.74%

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2015

Changes in 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: A cash balance plan was introduced for members 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 listed below:

2006: The assumptions were updated as the result of an experience study for the five-year period ended June 30, 2005.

2007: Amortization bases have been combined and will be amortized over a single 30-year closed period beginning June 30, 2007.

2009: The assumptions were updated as the result of an experience study for the three-year period ending June 30, 2008.

2013: The amortization period of the unfunded accrued liability was reset to a closed 30-year period.

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 2014 and 2015, determined as of July 1, 2013. 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 tat schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary increase	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

**Independent Auditors' 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  
East Clark County Water District  
Winchester, Kentucky

We have audited, 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, the financial statements of the business-type activities of East Clark 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 East Clark County Water District's basic financial statements and have issued our report thereon dated March 16, 2016.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control 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 East Clark County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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.

***Baldwin CPAs, PLLC***

Baldwin CPAs, PLLC  
March 16, 2016