

# MCCREARY COUNTY WATER DISTRICT

P.O. Box 488

Whitley City, KY 42653

(606) 376-2540

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Public Service  
Commission

October 20, 2016

Mr. Jeff Cline  
PSC  
P.O. Box 615  
Frankfort, KY 40602-0615

RE: McCreary County Water District  
December 31, 2015 and 2014 Annual Report  
Water & Sewer Divisions

Dear Mr. Cline:

Please find enclosed is the McCreary County Water District Independent Auditor's Report and Combined Financial Statements December 31, 2015 and 2014 for both the water and sewer divisions.

If you have any questions, please feel free to contact me at (606) 376-2540.

Sincerely,



Stephen T. Owens, Manager/Supt.  
McCreary County Water District

STO/kt

Enclosure

McCreary County Water District  
Water and Sewer Divisions

\* \* \* \*

Independent Auditor's Report  
and Combined Financial Statements  
December 31, 2015 and 2014

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2015 and 2014

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**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014**

Our discussion and analysis of the McCreary County Water District, Water and Sewer Divisions' financial performance provides an overview of the Company's financial activities for the years ended December 31, 2015 and 2014. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ended December 31, 2015, total operating and non-operating revenues (including capital contributions) totaled \$4,547,551 and operating expenses and non-operating expenses amounted to \$5,199,911, creating a decrease in net position of \$652,360. At year end, net position totaled \$29,533,049 of which \$29,213,428 (net of related debt) was invested in capital assets, and \$752,743 was restricted for debt service and construction. This left a net amount of \$(433,122) of unrestricted net position.

For the year ended December 31, 2014, total operating and non-operating revenues (including capital contributions) totaled \$3,888,779 and operating expenses and non-operating expenses amounted to \$5,302,809, creating a decrease in net position of \$1,414,030. At year end, net position totaled \$30,185,409 of which \$30,039,548 (net of related debt) was invested in capital assets, and \$779,722 was restricted for debt service and construction. This left a net amount of \$(633,861) of unrestricted net position.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis, Financial Statements and Supplementary information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements of McCreary County Water District, Water and Sewer Divisions report information of the Company using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to utility creditors (liabilities). It also provides the basis for evaluation of the capital structure of the utility and assessing the liquidity and financial flexibility of the utility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the utility's operations over the past year and can be used to determine whether the utility 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 cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014**

Condensed Comparative Financial Analysis:

McCreary County Water District  
Water and Sewer Divisions  
Statement of Net Position-Summary  
December 31, 2015 and 2014

Assets	<u>2015</u>	<u>2014</u>
Total Current Assets	\$ 1,747,132	\$ 1,254,149
Total Restricted Assets	752,743	779,722
Net Capital Assets	<u>39,902,172</u>	<u>40,199,050</u>
Total Assets	<u>\$ 42,402,047</u>	<u>\$ 42,232,921</u>
Deferred Outflows of Resources	<u>272,568</u>	<u>61,458</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 42,674,615</u>	<u>\$ 42,294,379</u>
Liabilities		
Total Current Liabilities	\$ 1,038,987	\$ 786,781
Total Non-current Liabilities	<u>12,051,038</u>	<u>11,168,528</u>
Total Liabilities	<u>\$ 13,090,025</u>	<u>\$ 11,955,309</u>
Deferred Inflows of Resources	<u>\$ 51,541</u>	<u>\$ 153,661</u>
Net Position:		
Invested in capital assets, net of related debt	\$ 29,213,428	\$ 30,039,548
Restricted for debt service and construction	752,743	779,722
Unrestricted	<u>(433,122)</u>	<u>(633,861)</u>
Total Net Position	<u>\$ 29,533,049</u>	<u>\$ 30,185,409</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 42,674,615</u>	<u>\$ 42,294,379</u>

The largest portion per year (98.92% and 99.52% respectively) of the utility's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The utility used these capital assets to provide services to citizens and consumers. Consequently, these assets are not available for future spending.

Restricted net position per year (2.54% and 2.58% respectively) represent resources that are subject to external restrictions on how they may be used.

The balance per year (-1.47% and -2.1% respectively) of unrestricted net position may be used to meet the utility's ongoing obligations to citizens, consumers and creditors.

**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014**

McCreary County Water District  
Water and Sewer Divisions  
Statement of Operations  
For the Years Ended December 31, 2015 and 2014

	2015	2014
Total operating revenues	\$ 4,180,875	\$ 3,774,939
Total operating expenses	4,885,433	4,991,759
Operating loss	(704,558)	(1,216,820)
Total non-operating revenue (expenses)	(249,187)	(249,406)
Loss before capital contributions	(953,745)	(1,466,226)
Capital contributions	301,385	52,196
Change in net position	(652,360)	(1,414,030)
Beginning of year	30,185,409	31,599,439
End of year	\$ 29,533,049	\$ 30,185,409

During 2015, net position decreased by \$652,360 and consisted of an operating loss of (\$704,558), net non-operating revenue and expenses of (\$249,187) and capital contributions of \$301,385.

During 2014, net position decreased by \$1,414,030 and consisted of an operating loss of (\$1,216,820), net non-operating revenues and expenses of (\$249,406) and capital contributions of \$52,196.

Capital Asset Changes

At December 31, 2015, the Utility had invested \$39,902,172 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$296,878 from the previous year. The net decrease consisted of additions to capital assets of \$1,311,213 less depreciation expense of \$1,608,091. The additions were mainly financed with proceeds of capital grants.

At December 31, 2014, the Utility had invested \$40,199,050 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$1,487,500 from the previous year. The net decrease consisted of additions to capital assets of \$93,394 less depreciation expense of \$1,580,894. The additions were mainly financed with proceeds of capital grants.

Debt Administration

At December 31, 2015, the utility had total debt equal to \$10,688,744 which consisted of \$9,755,398 of bonds outstanding, \$927,925 of notes payable, and capital leases of \$5,421. At the beginning of the year total debt equaled \$10,159,502. The increase in debt of \$529,242 was due to new debt of \$896,850 less scheduled principal payments of \$367,608.

At December 31, 2014, the utility had total debt equal to \$10,159,502, which consisted of \$10,101,427 of bonds outstanding, \$50,559 of notes payable, and capital leases of \$7,516. At the beginning of the year total debt equaled \$10,486,508. The decrease in debt was due to scheduled principal payments of \$327,006.

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014

Other Matters

During 2015, the District implemented GASB No. 68, Accounting and Financial Reporting for Pensions. This standard requires cost sharing governments to report a net pension liability, pension expense and pension related deferred inflows and outflows of resources based upon their proportionate share of the collection mounts for all the governments in the plan; therefore, included in long term liabilities is a net pension liability of \$1,738,371 for 2015, and \$1,376,595 for 2014.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of McCreary County Water District, Water and Sewer Divisions' finances and to demonstrate the utility's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the McCreary County Water District, Whitley City, Kentucky.

**FAULKNER, KING & WENZ, PSC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**JOSEPH C. KING, CPA**  
**JOHN M. WENZ, CPA**  
**KEVIN M. ROMENESKO, CPA**  
**KAREN S. TRENT, CPA**  
**EUGENE C. WEATHERS, CPA**

**P.O. BOX 285**  
**117 WEST HIGH STREET**  
**MT. STERLING, KY 40353**  
**(859) 498-1836 FAX (859) 498-2116**

**LANA J. McCANN, CPA**  
**ERICA M. SNOWDEN, CPA**  
**JENNIFER T. COLLINGWOOD, CPA**

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653

**Report on the Financial Statements**

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

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 includes 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 combined financial statements referred to above present fairly, in all material respects, the respective financial position of McCreary County Water District, Water and Sewer Divisions as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

#### **Change in Accounting Principle**

As Described in Note 11 to the financial statements, in 2015, the District adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. 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 and analysis information on pages 1 through 4 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 combined financial statements that collectively comprise McCreary County Water District, Water and Sewer Divisions' basic financial statements. The accompanying combining statements of net position, revenues, expenses and changes in net position, and cash flows are presented for purposes of additional analysis, and are not a

McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653  
Page 3

required part of the combined financial statements of the McCreary County Water District, Water and Sewer Divisions. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining statements and the schedule of expenditures of federal awards referred to above are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combined financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2016, on our consideration of McCreary County Water District, Water and Sewer Divisions' 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 McCreary County Water District's internal control over financial reporting and compliance.

***Faulkner, King & Wenz, PSC***

October 5, 2016

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF NET POSITION  
DECEMBER 31, 2015 and 2014**

**ASSETS**

	<u>2015</u>	<u>2014</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 763,520	\$ 529,494
Unbilled revenues	208,147	203,296
Accounts receivable	520,172	258,045
Other receivables	8,089	38,640
Inventory	222,075	200,858
Prepaid expenses	25,129	23,816
Total current assets	<u>1,747,132</u>	<u>1,254,149</u>
<b>Non-current assets:</b>		
Restricted assets:		
Cash and cash equivalents	419,447	447,877
Investments	333,296	331,845
Capital assets:		
Utility plant	59,385,762	59,322,840
Less accumulated depreciation	(20,736,180)	(19,123,790)
Construction in process	1,252,590	-
Total non-current assets	<u>40,654,915</u>	<u>40,978,772</u>
<b>Deferred Outflows of Resources:</b>		
Deferred outflows - pension	<u>272,568</u>	<u>61,458</u>
Total assets and deferred outflows of resources	<u>\$ 42,674,615</u>	<u>\$ 42,294,379</u>

**LIABILITIES**

<b>Current liabilities:</b>		
Accounts payable	\$ 381,463	\$ 140,134
Accrued interest	139,634	130,066
Taxes payable	16,115	15,068
Other accrued expenses	93,750	97,083
Customer deposits	31,948	36,861
Capital equipment lease - current	2,427	2,120
Notes payable - current	20,600	19,420
Revenue bonds - current portion	353,050	346,029
Total current liabilities	<u>1,038,987</u>	<u>786,781</u>
<b>Non-current liabilities:</b>		
Capital equipment lease - non current	2,994	5,396
Notes payable - long term	907,325	31,139
Revenue bonds - net current portion	9,402,348	9,755,398
Net pension liability	1,738,371	1,376,595
Total non-current liabilities	<u>12,051,038</u>	<u>11,168,528</u>
Total liabilities	<u>13,090,025</u>	<u>11,955,309</u>

**Deferred Inflows of Resources**

Deferred inflows - pension	<u>51,541</u>	<u>153,661</u>
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**NET POSITION**

Invested in capital assets, net of related debt	29,213,428	30,039,548
Restricted for debt service and construction	752,743	779,722
Unrestricted	(433,122)	(633,861)
Total net position	<u>29,533,049</u>	<u>30,185,409</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 42,674,615</u>	<u>\$ 42,294,379</u>

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

**McCREARY COUNTY WATER DISTRICT**  
**WATER AND SEWER DIVISIONS**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 and 2014**

	2015	2014
<b>Operating revenues</b>		
Residential sales	\$ 2,480,443	\$ 2,246,934
Commercial sales	367,414	324,504
Industrial sales	8,335	7,114
Governmental sales	1,237,912	1,087,528
Other sales	86,771	108,859
Total operating revenues	4,180,875	3,774,939
<b>Operating expenses</b>		
General and administrative costs	186,875	169,860
Payroll and related expenses	1,870,005	1,981,589
Repairs and maintenance	28,992	32,074
Other supplies and expenses	1,191,470	1,227,342
Depreciation and amortization	1,608,091	1,580,894
Total operating expenses	4,885,433	4,991,759
Operating loss	(704,558)	(1,216,820)
<b>Nonoperating revenues (expenses)</b>		
Interest income	8,554	8,541
Other income	56,737	53,103
Interest expense	(314,478)	(311,050)
Net nonoperating expenses	(249,187)	(249,406)
Loss before contributions	(953,745)	(1,466,226)
Capital grants received	301,385	52,196
Change in net position	(652,360)	(1,414,030)
Total net position beginning of year (restated)	30,185,409	31,599,439
Total net position end of year	\$ 29,533,049	\$ 30,185,409

The accompanying notes are an integral part of the financial statements

**McCREARY COUNTY WATER DISTRICT**  
**WATER AND SEWER DIVISIONS**  
**COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (704,558)	\$ (1,216,820)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,608,091	1,580,894
Change in assets and liabilities:		
Decrease (increase) in receivables	(236,149)	100,590
(Increase) decrease in inventories	(21,217)	26,954
Decrease (increase) in prepaids	(1,313)	8,143
Increase in accounts payable	241,329	12,393
Decrease in customer deposits	(4,913)	(1,303)
Increase (decrease) in accrued expenses	(2,286)	7,054
Increase in net pension obligation	48,546	48,723
<b>Net cash provided by operating activities</b>	<b>\$ 927,530</b>	<b>\$ 566,628</b>

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2015 and 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the McCreary County Water District, Water and Sewer Divisions (the District) conform to accounting principles generally accepted in the United States of America (GAAP). The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

**Reporting Entity**

The District, consisting of McCreary County Water District Water Division, and McCreary County Water District Sewer Division has been consolidated for reporting purposes. The entities share the same board of commissioners, central offices and employees.

The District is a special district formed for the express purpose of providing water and sewer service within the confines of McCreary County, Kentucky and East Pine Knot Estates. McCreary County Fiscal Court appoints an independent board of commissioners to govern the district. The District operates as an independent entity in that it: is legally separate; holds corporate powers of organization; the Fiscal Court does not impose their will upon the District; and the District does not impose financial benefit or burden upon the Fiscal Court.

**Basis of Presentation**

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34) established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2015 and 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The District is an individual fund and is accounted for as a business-type activity fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The District's financial statements are prepared on the accrual basis of accounting. By utilizing this method, revenues are recognized when they are earned, and expenses are recognized as they are incurred.

Operating income reported in the financial statements includes revenues and expenses related to the continuing operation of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use it is the District's policy to use restricted resources first, then unrestricted resources as needed.

**Use of Estimates and Assumptions**

In preparing financial statements that conform with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Accordingly, actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the allowance for doubtful accounts for accounts receivable.

**Compensated Absences**

Vacation - Vacation days are accrued at the following rate:

5 days per year for years	1-3
10 days per year for years	3-10
15 days per year for years	10-15
20 days per year for years	15-xx

These days are carried over if unused to a maximum of 30 days; however, all full-time employees with over three years must take ten days of vacation per year.

Sick - Employees earn one sick day for every two months of employment and may carry over a total of twelve days.

These unpaid compensated absences, if applicable, are recorded as accrued liabilities.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturity of ninety days or less to be cash equivalents.

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2015 and 2014

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management closely monitors outstanding balances and writes off balances that are deemed to be uncollectible. The allowance for doubtful accounts of \$173,970 and \$157,870 for the years ended December 31, 2015 and 2014 has been established to reserve for those balances that the entity believes to be uncollectible.

**Inventories**

Inventories are stated at the lower of cost or market on the basis of "first-in, first-out" (FIFO) inventory method.

**Capital and operating grants**

Grants that are restricted to the purchase of capital assets are recorded as other income, per GASB 33. The District received \$301,385 and \$52,196 in grants for the years ended December 31, 2015 and 2014 respectively.

**Capital Assets**

Utility plant is stated at original cost and depreciated over its estimated useful lives using the straight-line method. Expenditures for maintenance and repairs are expensed when incurred. Renewals and betterments are capitalized. The range of useful lives used in computing depreciation is:

<u>Classification</u>	<u>Range of lives</u>
Buildings	40 years
Water systems	40 years
Machinery & equipment	5 years

Total depreciation expense was \$1,608,091 and \$1,580,894 for the years ended December 31, 2015 and 2014 respectively.

**Pensions**

For 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 County Employers' Retirement System Plan (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be FDIC insured banking institutions; depositories must fully insure or collateralize all demand and time deposits and repurchase agreements; and securities collateralizing repurchase agreements are to be held by independent third parties.



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**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

**Bank Deposits**

The fair market value of deposits and investments was equivalent to the reported values. All deposits are checking or savings accounts. The carrying amount of the District's bank deposits was \$1,515,263 and \$1,308,216 for the years ended December 31, 2015 and 2014 respectively and the respective bank balances totaled \$1,578,258 and \$1,380,196 respectively for the years then ended. The bank balances are covered by \$619,583 of FDIC insurance. The remaining bank balances were fully collateralized. The deposits are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

Deposits at December 31, 2015, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted deposits					
Operating accounts	\$ 107,892	\$ -	\$ 532,114	\$ 640,006	\$ 577,011
Depreciation funds	147,751		37,758	185,509	185,509
Restricted deposits					
Debt service funds	-	-	305,507	305,507	305,507
Depreciation funds	113,940	-	-	113,940	113,940
Investments	250,000	-	83,296	333,296	333,296
<b>Total deposits</b>	<b>\$ 619,583</b>	<b>\$ -</b>	<b>\$ 958,675</b>	<b>\$ 1,578,258</b>	<b>\$ 1,515,263</b>

Deposits at December 31, 2014, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted deposits					
Operating accounts	\$ 107,720	\$ -	\$ 306,001	\$ 413,721	\$ 341,741
Depreciation funds	152,479		34,274	186,753	186,753
Restricted deposits					
Debt service funds	-	-	338,677	338,677	338,677
Depreciation funds	109,200	-	-	109,200	109,200
Investments	250,000	-	81,845	331,845	331,845
<b>Total deposits</b>	<b>\$ 619,399</b>	<b>\$ -</b>	<b>\$ 760,797</b>	<b>\$ 1,380,196</b>	<b>\$ 1,308,216</b>

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**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

The District also had \$1,000 and \$1,000 of petty cash on hand for the years ended December 31, 2015 and 2014 respectively.

**Investments**

At December 31, 2015 and 2014, the District's investments included the Federated Treasury Obligations Fund (a money market fund). The investments are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

- Category 1 - Investments that are insured, registered or for which the securities are held by the District or its agent in the District's name.
- Category 2 - Uninsured and unregistered investments for which the securities are held by the bank's trust departments or agents in the District's name.
- Category 3 - Uninsured and unregistered investments for which the securities are held by the banks, or by their trust departments or agents but not in the District's name.

Investments at December 31, 2015 categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	\$333,296	\$ -	\$ -	\$333,296	\$333,296
Total investments	<u>\$333,296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$333,296</u>	<u>\$333,296</u>

Investments at December 31, 2014, categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	\$331,845	\$ -	\$ -	\$331,845	\$331,845
Total investments	<u>\$331,845</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$331,845</u>	<u>\$331,845</u>

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**NOTE 3 - RESTRICTED ASSETS**

The restricted assets in the accompanying financial statements are restricted as to use by ordinance (Note 7), external parties or by board designation. A schedule of restricted assets at December 31, 2015 and 2014 are:

**A schedule of restricted assets at December 31, 2015 are:**

	Cash	Investments at cost	Total
Debt service funds	\$ 305,507	\$ -	\$ 305,507
Construction funds	-	-	-
Depreciation funds	113,940	-	113,940
Treasury MM fund	-	333,296	333,296
Total restricted assets	<u>\$ 419,447</u>	<u>\$ 333,296</u>	<u>\$ 752,743</u>

**A schedule of restricted assets at December 31, 2014 are:**

	Cash	Investments at cost	Total
Debt service funds	\$ 338,677	\$ -	\$ 338,677
Construction funds	-	-	-
Depreciation funds	109,200	-	109,200
Treasury MM fund	-	331,845	331,845
Total restricted assets	<u>\$ 447,877</u>	<u>\$ 331,845</u>	<u>\$ 779,722</u>

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**NOTE 4 - CAPITAL ASSETS**

The following represents the activity for the year ended December 31, 2015:

	Balance 12/31/2014	Additions	Disposals	Transfers	Balance 12/31/2015
Operating fixed assets:					
Land	\$ 258,269	\$ -	\$ -	\$ -	\$ 258,269
Buildings & Improvements	19,895,627	-	-	-	19,895,627
Treatment equipment	3,249,813	-	-	-	3,249,813
Distributions	22,684,755	5,756	-	-	22,690,511
Services/meters	3,705,182	14,788	-	-	3,719,970
Other equipment	<u>9,529,194</u>	<u>42,378</u>	<u>-</u>	<u>-</u>	<u>9,571,572</u>
	59,322,840	62,922	-	-	59,385,762
Accumulated depreciation	<u>(19,123,790)</u>	<u>(1,612,390)</u>	<u>-</u>	<u>-</u>	<u>(20,736,180)</u>
	40,199,050	(1,549,468)	-	-	38,649,582
Construction in progress	<u>-</u>	<u>1,252,590</u>	<u>-</u>	<u>-</u>	<u>1,252,590</u>
Utility plant, net	<u>\$40,199,050</u>	<u>\$ (296,878)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$39,902,172</u>

The following represents the activity for the year ended December 31, 2014:

	Balance 12/31/2013	Additions	Disposals	Transfers	Balance 12/31/2014
Operating fixed assets:					
Land	\$ 258,269	\$ -	\$ -	\$ -	\$ 258,269
Buildings & Improvements	17,196,078	-	-	2,699,549	19,895,627
Treatment equipment	3,249,813	-	-	-	3,249,813
Distributions	22,561,694	2,816	-	120,245	22,684,755
Services/meters	3,680,754	24,428	-	-	3,705,182
Other equipment	<u>9,520,906</u>	<u>8,288</u>	<u>-</u>	<u>-</u>	<u>9,529,194</u>
	56,467,514	35,532	-	2,819,794	59,322,840
Accumulated depreciation	<u>(17,542,896)</u>	<u>(1,580,894)</u>	<u>-</u>	<u>-</u>	<u>(19,123,790)</u>
	38,924,618	(1,545,362)	-	2,819,794	40,199,050
Construction in progress	<u>2,761,932</u>	<u>57,862</u>	<u>-</u>	<u>(2,819,794)</u>	<u>-</u>
Utility plant, net	<u>\$41,686,550</u>	<u>\$ (1,487,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$40,199,050</u>

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**NOTE 5 - LONG-TERM DEBT**

Outstanding long-term debt consists of revenue bonds collateralized by the revenues of the District, and one capital lease for equipment. Revenues of the District are to be used first to pay operating and maintenance expenses and second to establish and maintain the revenue bond funds. The District is in compliance with all significant financial requirements as of December 31, 2015.

The District's bonded indebtedness and other long-term debt at December 31, 2015 and 2014, are summarized as follows:

<u>Bond issue</u>	<u>Rate</u>	<u>Original Issue</u>	<u>Principal O/S 2015</u>	<u>Principal O/S 2014</u>
<b>Water District</b>				
Ricoh Financial	12.75%	\$ 9,306	\$ 5,421	\$ 7,516
RD Series 2013 D	Variable	1,415,000	1,235,000	1,325,000
RD 2013 Series A	1.875%	635,000	624,000	635,000
RD 2005 Series A	4.125%	750,000	666,000	677,000
RD 2008 Series A	4.125%	325,000	300,500	305,000
RD 2008 Series A	4.125%	150,000	138,700	140,800
RD Series 2012 D	Variable	3,205,000	2,975,000	3,060,000
RD Series 2012 D-1	Variable	1,935,000	1,279,000	1,300,000
KIA CD2-01	1.000%	* 1,510,000	800,198	872,127
Regions Bank	2.600%	896,850	896,850	-
<b>Sewer District</b>				
RD 2005 Series A	4.125%	290,000	257,000	261,500
RD Series 2012 D	Variable	1,595,000	1,480,000	1,525,000
N/P - Bank of McCreary Co.	6.000%	<u>167,000</u>	<u>31,075</u>	<u>50,559</u>
		12,883,156	10,688,744	10,159,502
Less current maturities			<u>(376,077)</u>	<u>(367,569)</u>
Total long-term debt			<u>\$10,312,667</u>	<u>\$ 9,791,933</u>

\* The original issue of the KIA CD2-01 loan is \$1,510,000. As of December 31, 2015, the District had borrowed \$1,474,999 of the original amount.

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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The District's bonded indebtedness and other long-term debt at December 31, 2015 is detailed as follows:

	Principal Balance 12/31/2014	Borrowings	Principal Payments	Principal Balance 12/31/2015	Current	Long-Term
<b>Water District</b>						
Ricoh Finance	\$ 7,516	\$ -	\$ 2,095	\$ 5,421	\$ 2,427	\$ 2,994
2005 Series A	677,000	-	11,000	666,000	11,500	654,500
2008 Series A	305,000	-	4,500	300,500	4,700	295,800
2008 Series A	140,800	-	2,100	138,700	2,200	136,500
2012 Series D	3,060,000	-	85,000	2,975,000	90,000	2,885,000
2012 Series D1	1,300,000	-	21,000	1,279,000	21,500	1,257,500
2013 Series D	635,000	-	11,000	624,000	11,000	613,000
2013 Series A	1,325,000	-	90,000	1,235,000	90,000	1,145,000
KIA CD2-01	872,127	-	71,929	800,198	72,650	727,548
Regions Bank	-	896,850	-	896,850	-	896,850
<b>Sewer District</b>						
2005 Series A	261,500	-	4,500	257,000	4,500	252,500
2012 Series D	1,525,000	-	45,000	1,480,000	45,000	1,435,000
N/P - BOMC	50,559	-	19,484	31,075	20,600	10,475
	<u>\$10,159,502</u>	<u>\$ 896,850</u>	<u>\$ 367,608</u>	<u>\$10,688,744</u>	<u>\$ 376,077</u>	<u>\$10,312,667</u>

The District's bonded indebtedness and other long-term debt at December 31, 2014 is detailed as follows:

	Principal Balance 12/31/2013	Borrowings	Principal Payments	Principal Balance 12/31/2014	Current	Long-Term
<b>Water District</b>						
Ricoh Finance	\$ 9,306	\$ -	\$ 1,790	\$ 7,516	\$ 2,120	\$ 5,396
2005 Series A	687,500	-	10,500	677,000	11,000	666,000
2008 Series A	309,300	-	4,300	305,000	4,500	300,500
2008 Series A	142,800	-	2,000	140,800	2,100	138,700
2012 Series D	3,145,000	-	85,000	3,060,000	85,000	2,975,000
2012 Series D1	1,300,000	-	-	1,300,000	21,000	1,279,000
2013 Series D	635,000	-	-	635,000	11,000	624,000
2013 Series A	1,415,000	-	90,000	1,325,000	90,000	1,235,000
KIA CD2-01	943,342	-	71,215	872,127	71,929	800,198
Regions Bank	-	-	-	-	-	-
<b>Sewer District</b>						
2005 Series A	265,500	-	4,000	261,500	4,500	257,000
2012 Series D	1,565,000	-	40,000	1,525,000	45,000	1,480,000
N/P - BOMC	68,760	-	18,201	50,559	19,420	31,139
	<u>\$10,486,508</u>	<u>\$ -</u>	<u>\$ 327,006</u>	<u>\$10,159,502</u>	<u>\$ 367,569</u>	<u>\$ 9,791,933</u>

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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The long-term debt service requirements are as follows:

Year	Principal		Interest		Total	
	Water	Sewer	Water	Sewer	Water	Sewer
2016	\$ 305,977	\$ 70,100	\$ 244,280	\$ 66,832	\$ 550,257	\$ 136,932
2017	316,540	59,975	225,052	64,157	541,592	124,132
2018	337,620	50,000	215,687	62,414	553,307	112,414
2019	345,350	50,000	208,169	60,749	553,519	110,749
2020	353,438	55,500	200,454	59,004	553,892	114,504
2021-2025	1,857,157	295,500	874,214	266,580	2,731,371	562,080
2026-2030	1,407,737	358,500	647,807	207,463	2,055,544	565,963
2031-2035	1,260,600	417,500	438,628	132,015	1,699,228	549,515
2036-2040	1,253,400	330,000	243,038	49,121	1,496,438	379,121
2041-2045	735,300	81,000	100,772	6,831	836,072	87,831
2046-2050	600,550	-	36,166	-	636,716	-
2051-2052	<u>147,000</u>	<u>-</u>	<u>2,728</u>	<u>-</u>	<u>149,728</u>	<u>-</u>
	<u>\$8,920,669</u>	<u>\$1,768,075</u>	<u>\$3,436,995</u>	<u>\$ 975,166</u>	<u>\$12,357,664</u>	<u>\$2,743,241</u>

Ricoh Finance - A capital lease was started on December 30, 2013 for the use of equipment purchased from IKON Office Solutions. The lease bears an interest rate of 12.75% with a life of four years ending on January 30, 2018.

2005 Series A - McCreary County Water District Waterworks Revenue Bond, dated August 31, 2005, due in annual installments through April 1, 2045, bearing an interest rate of 4.125%.

2008 Series A - McCreary County Water District Waterworks Revenue Bond, dated April 8, 2008, due in annual installments through April 8, 2048 bearing an interest rate of 4.125%

2008 Series A - McCreary County Water District Waterworks Revenue Bond, dated April 8, 2008, due in annual installments through April 8, 2048 bearing an interest rate of 4.125%

2012 Series D - McCreary County Water District Waterworks Revenue Bond, dated May 30, 2012, due in annual installments through January 1, 2040 bearing a variable interest rate.

2012 Series D1 - McCreary County Water District Waterworks Revenue Bond, dated September 30, 2012, due in annual installments through April 1, 2052 bearing a variable interest rate.

2013 Series D - McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through October 1, 2052 bearing a variable interest rate.

2013 Series A - McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through July 1, 2030 bearing an interest rate of 1.875%.

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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

KIA CD2-01 Fund C - As of December 31, 2005 the District had drawn \$1,474,999 on a KIA loan secured by a pledge of revenues. The loan bears an interest rate of 1.00% with a life of twenty years maturing in 2025.

2005 Series A - McCreary County Water District Sewer System Revenue Bond, dated August 31, 2005, due in annual installments through January 1, 2045, bearing an interest rate of 4.125%.

2012 Series D - McCreary County Water District Sewer System Revenue Bond, dated May 30, 2012, due in annual installments through February 1, 2041, bearing a variable interest rate.

Bank of McCreary County - Installment loan dated February 9, 2007, due in bi-annual installments through February 9, 2017, bearing an interest rate of 6.0%.

Regions Bank - Installment loan dated July 7, 2015, due on February 5, 2016 bearing an interest rate of 2.6% This loan was refinanced on February 5, 2016 with revenue Bonds Series 2015 totaling \$1,158,000 issued to USDA Rural Development, bearing an interest rate of 2.5%

**NOTE 6 - NET POSITION**

GASB Statement No. 34 (as amended by GASB 63) requires the delineation of Net Position as Invested in Property, Plant and Equipment (capital investments), Restricted and Unrestricted.

The balance of capital investments represents funds that have been used to acquire pump stations, storage facilities, meter stations, etc., constructed and operated by the District, net of outstanding debt. The balance was \$29,213,428 and \$30,039,548 for the years ended December 31, 2015 and 2014 respectively.

The District has the following restricted net position that is reserved in accordance with the District's various bond ordinances (Note 7):

	<u>2015</u>	<u>2014</u>
Construction	\$ -0-	\$ -0-
Depreciation	113,940	109,200
Debt Service	305,507	338,677
Treasury MM Fund	<u>333,296</u>	<u>331,845</u>
<b>Total Restricted</b>	<b><u>\$ 752,743</u></b>	<b><u>\$ 779,722</u></b>

The District has a balance of \$(433,122) and \$(633,861) for unrestricted net position at December 31, 2015 and 2014 respectively.

**NOTE 7 - COMPLIANCE WITH BOND ORDINANCES**

The District is in compliance with its bond ordinances that require the District to maintain certain reserves and restricted assets as follows:

Bond and Interest Fund - In order to fund the McCreary County Water District and Water Sewer debt, the District makes deposits into these funds to pay for current maturing principal portions and associated interest of bond issues.

Bond Sinking Funds - McCreary County Water District is required by ordinances to transfer funds into various sinking funds for future debt retirement.



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**NOTE 7 - COMPLIANCE WITH BOND ORDINANCES (CONTINUED)**

Depreciation Fund - The bond resolutions authorizing the bond issues of the water and sewer system require transfers into various depreciation funds to be used for plant acquisitions, extensions and extraordinary repairs and maintenance. Transfers can cease when the fund balance reaches specified levels. The balance in the depreciation fund as of December 31, 2015 and 2014 equaled \$299,449 and \$295,953 respectively. The required balance is \$113,940 and \$109,200 respectively.

Construction Funds - The District is required to transfer funds into various funds for the use of funding future projects.

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

**NOTE 9 - FAIR VALUE MEASUREMENTS**

FASB Statement No. 157, *Fair Value Measurements*, as codified by Accounting Standards Codification (ASC) 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The District uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the District measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or 3 inputs were used by the District.

*Level 1 Fair Value Measurements*

The fair value of the Federated Treasury Obligations Fund (a money market fund) is based on quoted net asset values of the investments held by the District at year-end.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value:

Assets at Fair Value as of December 31, 2015

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$333,296</u>	-	-	<u>\$333,296</u>
Total assets at fair value	<u>\$333,296</u>	-	-	<u>\$333,296</u>

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**NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)**

Assets at Fair Value as of December 31, 2014

	Level 1	Level 2	Level 3	Total
Treasury MM fund	\$331,845	-	-	\$331,845
Total assets at fair value	<u>\$331,845</u>	-	-	<u>\$331,845</u>

**NOTE 10 - PENSION PLAN**

McCreary County Water District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

*Plan Description* - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

*Contributions* - For the year ended December 31, 2015, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2015, the District contributed 17.67% of each employee's wages from January to June, 2015 and 17.06% of each employee's wages from July to December, 2015, both of which are equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

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**NOTE 10 - PENSION PLAN (CONTINUED)**

The District contributed \$175,031 for the year ended December 31, 2015, or 100% of the required contribution. The contribution was allocated \$126,892 to the CERS pension fund and \$48,139 to the CERS insurance fund.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* - At December 31, 2015, the District reported a liability of \$1,738,371 or 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 proportion of the net pension liability was based on 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 June 30, 2015; the District's proportion was .040432 percent, while at June 30, 2014, the District's proportion was .042430 percent.

For the year ended December 31, 2015, the District recognized pension expense of \$170,924. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 14,446	\$ -
Changes of assumptions	175,296	-
Net difference between projected and actual earnings on Plan investments	15,583	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	51,541
Company contributions subsequent to the measurement date	67,243	-
<b>Total</b>	<b>\$ 272,568</b>	<b>\$ 51,541</b>

The \$67,243 of deferred outflows of resources 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 ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2016	\$(49,805)
2017	(49,805)
2018	(22,825)
2019	(31,349)

*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 plan investment expense, including inflation	

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2015 and 2014**

**NOTE 10 - PENSION PLAN (CONTINUED)**

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 plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer 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 arithmetic nominal rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Combined Equity	44%	5.40%
Combined Fixed Income Real Return (Diversified Inflation Strategies)	19%	1.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	100%	

*Discount Rate* - The discount rate used to measure the total pension liability was 7.50 percent at June 30, 2015. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2015 and 2014

**NOTE 10 - PENSION PLAN (CONTINUED)**

*Sensitivity of the Company'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 percent, 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 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Discount rate	Company's proportionate share of net pension liability
1% decrease	6.50%	\$ 2,219,247
Current discount rate	7.50%	\$ 1,738,371
1% increase	8.50%	\$ 1,326,544

*Payable to the Pension Plan* - At December 31, 2015, the District reported a payable of \$21,228 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015. The payable includes both the pension and insurance contribution allocation.

**NOTE 11 - RESTATEMENT OF NET POSITION**

Implementation of new accounting standard GASB Statement No. 68

During 2015 the District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67, Financial Reporting for Pension Plans.

The guidance contained in Statement 68 changed how governments calculate and report the costs and obligations associated with pensions. Under the new standards GASB requires that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 68 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

	2015	2014
Net position at beginning of year	\$31,654,207	\$33,019,514
Beginning net pension liability, deferred inflows of resources and deferred outflows of resources	(1,468,798)	(1,420,075)
Net position, at beginning of year, as restated	\$30,185,409	\$31,599,439
Change in net position as previously reported		\$(1,365,307)
Pension expense adjustment		(48,723)
Change in net position, as restated		\$(1,414,030)

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2015 and 2014

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events were evaluated through October 5, 2016, which is the date the financial statements were available to be issued.

**Supplemental Information**

**MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

	McCreary County		Eliminations	Total
	Water	Sewer		
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 750,263	\$ 13,257	\$ -	\$ 763,520
Unbilled revenues	161,225	46,922	-	208,147
Accounts receivable, net	439,220	80,952	-	520,172
Other receivables	2,557	5,532	-	8,089
Due from associated division	692,005	-	(692,005)	-
Inventory	179,917	42,158	-	222,075
Prepaid expenses	25,129	-	-	25,129
Total current assets	<u>2,250,316</u>	<u>188,821</u>	<u>(692,005)</u>	<u>1,747,132</u>
<b>Non-current assets:</b>				
Restricted cash and cash equivalents	392,113	27,334	-	419,447
Investments	333,296	-	-	333,296
<b>Capital assets:</b>				
Utility plant	40,872,046	18,513,716	-	59,385,762
Less accumulated depreciation	(14,755,226)	(5,980,954)	-	(20,736,180)
Construction in process	1,252,590	-	-	1,252,590
Total non-current assets	<u>28,094,819</u>	<u>12,560,096</u>	<u>-</u>	<u>40,654,915</u>
<b>Deferred outflows of resources:</b>				
Deferred outflows - pension	241,839	30,729	-	272,568
Total assets and deferred outflows of resources	<u>\$ 30,586,974</u>	<u>\$ 12,779,646</u>	<u>\$ (692,005)</u>	<u>\$ 42,674,615</u>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 340,033	\$ 41,430	\$ -	\$ 381,463
Accrued interest	106,433	33,201	-	139,634
Due to associated division	-	692,005	(692,005)	-
Taxes payable	14,817	1,298	-	16,115
Other accrued expenses	86,637	7,113	-	93,750
Customer deposits	31,948	-	-	31,948
Capital equipment lease - current	2,427	-	-	2,427
Notes payable - current	-	20,600	-	20,600
Revenue bonds - current portion	303,550	49,500	-	353,050
Total current liabilities	<u>885,845</u>	<u>845,147</u>	<u>(692,005)</u>	<u>1,038,987</u>
<b>Non-current liabilities:</b>				
Capital equipment lease - net current	2,994	-	-	2,994
Notes payable - long term	896,850	10,475	-	907,325
Revenue bonds - net current portion	7,714,848	1,687,500	-	9,402,348
Net pension liability	1,522,914	215,457	-	1,738,371
Total non-current liabilities	<u>10,137,606</u>	<u>1,913,432</u>	<u>-</u>	<u>12,051,038</u>
Total liabilities	<u>11,023,451</u>	<u>2,758,579</u>	<u>(692,005)</u>	<u>13,090,025</u>
<b>Deferred inflows of resources:</b>				
Deferred inflows - pension	45,730	5,811	-	51,541
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	18,448,741	10,764,687	\$ -	29,213,428
Restricted for debt service and construction	725,409	27,334	-	752,743
Unrestricted	343,643	(776,765)	-	(433,122)
Total net position	<u>19,517,793</u>	<u>10,015,256</u>	<u>-</u>	<u>29,533,049</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 30,586,974</u>	<u>\$ 12,779,646</u>	<u>\$ (692,005)</u>	<u>\$ 42,674,615</u>

See Independent Auditor's Report.



**MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	McCreary County		Total
	Water	Sewer	
<b>Operating revenues</b>			
Residential sales	\$ 2,201,072	\$ 279,371	\$ 2,480,443
Commercial sales	226,231	141,183	367,414
Industrial sales	4,363	3,972	8,335
Governmental sales	740,166	497,746	1,237,912
Other sales and fees	54,047	32,724	86,771
Total operating revenues	<u>3,225,879</u>	<u>954,996</u>	<u>4,180,875</u>
<b>Operating expenses</b>			
General and administrative costs	174,404	12,471	186,875
Payroll and contractual services	1,567,543	302,462	1,870,005
Repairs and maintenance	-	28,992	28,992
Other supplies and expenses	677,292	514,178	1,191,470
Depreciation	1,042,780	565,311	1,608,091
Total operating expenses	<u>3,462,019</u>	<u>1,423,414</u>	<u>4,885,433</u>
Operating loss	<u>(236,140)</u>	<u>(468,418)</u>	<u>(704,558)</u>
<b>Nonoperating revenues (expenses)</b>			
Interest income	8,316	238	8,554
Other income	56,737	-	56,737
Interest expense	(247,175)	(67,303)	(314,478)
Total nonoperating revenues	<u>(182,122)</u>	<u>(67,065)</u>	<u>(249,187)</u>
Loss before contributions	(418,262)	(535,483)	(953,745)
Capital grants received	<u>301,385</u>	<u>-</u>	<u>301,385</u>
Change in net position	(116,877)	(535,483)	(652,360)
Total net position on December 31, 2014 (restated)	<u>19,634,670</u>	<u>10,550,739</u>	<u>30,185,409</u>
Total net position on December 31, 2015	<u>\$ 19,517,793</u>	<u>\$ 10,015,256</u>	<u>\$ 29,533,049</u>

See Independent Auditor's Report

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)  
DECEMBER 31, 2015

	Water	Sewer	Total
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>			
Operating loss	\$ (236,140)	\$ (468,418)	\$ (704,558)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	1,042,780	565,311	1,608,091
Change in assets and liabilities:			
Increase in receivables	(215,061)	(21,088)	(236,149)
Decrease (increase) in inventories	(23,214)	1,997	(21,217)
Increase in prepaids	(1,313)	-	(1,313)
(Decrease) increase in accounts payable	244,447	(3,118)	241,329
Decrease in customer deposits	(4,913)	-	(4,913)
Decrease in accrued expenses	(1,698)	(588)	(2,286)
Increase in net pension obligation	42,910	5,636	48,546
	<u>\$ 847,798</u>	<u>\$ 79,732</u>	<u>\$ 927,530</u>
<b>Net cash provided by operating activities</b>			

See Independent Auditor's Report.

McCreary County Water District  
 Schedule of Proportionate Share of the Net Pension Liability  
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.04043%	0.04243%
District's proportionate share of the net pension liability	\$ 1,738,371	\$ 1,376,595
District's covered employee payroll	\$ 949,859	\$ 973,416
District's share of the net pension liability as a percentage of its covered employee payroll	183.01%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

Notes:

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

The amounts presented for each fiscal year were determined (measured) as of June 30, of the fiscal year presented.

McCreary County Water District  
 Schedule of Pension Contributions  
 For the Year Ended December 31, 2015 and 2014

	2015	2014
Contractually required employer contributions	\$ 126,892	\$ 127,882
Contributions relative to contractually required employer contributions	<u>\$ 126,892</u>	<u>\$ 127,882</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,009,246	\$ 965,456
Employer contributions as a percentage of covered-employee payroll	12.57%	13.25%

Notes:

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

Contractually required employer contributions exclude the portion of contributions paid to the CERS, but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The amounts presented for each fiscal year were determined (measured) as of December 31, the reporting year-end of the District.

**McCreary County Water District  
Schedule of Changes in Benefits and Assumptions  
For the Year Ended December 31, 2015**

**County Employee Retirement System**

*Changes of benefit terms - None.*

*Changes in assumptions -* The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- . The assumed rate of wage inflation was reduced from 1% to 0.75%.
- The 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 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 (setback one year for females). For disabled members the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four 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.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

McCreary County Water District  
 Schedule of Expenditures of Federal Awards  
 December 31, 2015

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Program/Award	Award	Receipts	Expenditures
			Amount	FYE 12/31/15	FYE 12/31/15
Rural Development	10.760	Rural Development Water Plant 1 Upgrade Phase 2 Loan / Grant	2,628,179	896,850	896,850 Major
Corp of Engineers	10.760	Department of the Army Corp of Engineers Revelo to Stearns Sewer Extension Project Grant	500,000	301,385	301,385 Major
Total			3,128,179	1,198,235	1,198,235

Notes to the Schedule of Expenditures of Federal Awards

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of McCreary County Water District under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of McCreary County Water District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of McCreary County Water District.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Indirect Cost Rates**

McCreary County Water District has elected not to use the 10 percent *de minimus* indirect cost rate as allowed under the Uniform Guidance.

**FAULKNER, KING & WENZ, PSC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**JOSEPH C. KING, CPA**  
**JOHN M. WENZ, CPA**  
**KEVIN M. ROMENESKO, CPA**  
**KAREN S. TRENT, CPA**  
**EUGENE C. WEATHERS, CPA**

**P.O. BOX 285**  
**117 WEST HIGH STREET**  
**MT. STERLING, KY 40353**  
**(859) 498-1836 FAX (859) 498-2116**

**LANA J. McCANN, CPA**  
**ERICA M. SNOWDEN, CPA**  
**JENNIFER T. COLLINGWOOD, CPA**

**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  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653

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 combined financial statements of the business-type activities of the McCreary County Water District, Water and Sewer Divisions (the 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 and have issued our report thereon dated October 5, 2016.

**Internal Control Over Financial Reporting**

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

Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653  
Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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.

***Faulkner, King & Wenz, PSC***

October 5, 2016



**FAULKNER, KING & WENZ, PSC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**JOSEPH C. KING, CPA**  
**JOHN M. WENZ, CPA**  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

McCreary County Water District  
Whitley City, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited McCreary County Water District, Water and Sewer divisions, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015. McCreary County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of McCreary County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McCreary County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of McCreary County Water District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, McCreary County Water District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

**Report on Internal Control over Compliance**

Management of McCreary County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered McCreary County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McCreary County Water District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

*A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

McCreary County Water District  
Whitley City, Kentucky  
Page 3

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Faulkner, King & Wenz, PSC*

October 5, 2016

McCREARY COUNTY WASTER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2015

Summary of Auditor's Results

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes X no
  - Significant deficiency(ies) identified? \_\_\_\_\_ yes X no
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes X no

Federal Awards:

Type of auditor's report issued: unqualified

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_ yes X no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes X no

Type of auditor's report issued on compliance for major federal programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes X no

Identification of major federal program(s):

CFDA Numbers	<u>Name of Federal Program or Cluster</u>
10.760	Rural Development Department of the Army Corp of Engineer

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? \_\_\_\_\_ yes X no