

MEADE COUNTY WATER DISTRICT
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2015

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William A. Talley
Jon D. Chesser
Bob E. Wientjes

Kentucky Offices:
Louisville
Brandenburg
Bardstown

INDEPENDENT AUDITORS' REPORT

Commissioners
Meade County Water District
Brandenburg, Kentucky

Report on the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 28, schedule of commission's proportionate share of the net pension liability on page 29, and schedule of commission's contributions on page 30 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 budgetary comparison 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statement is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Meade County Water District's basic financial statements. The supplementary information is prepared for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 18, 2016, on our consideration of the Meade County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Meade County Water District's internal control over financial reporting and compliance.



Louisville, Kentucky
March 18, 2016

**MEADE COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	2015
ASSETS	
Current Assets:	
Cash	\$ 346,596
Restricted cash	253,728
Prepaid insurance	13,356
Accounts receivable	228,325
Allowance for doubtful accounts	(24,373)
	203,952
Inventory - water	8,409
Inventory - parts	67,509
	893,550
Fixed Assets:	
Land	75,043
Fixed Assets not being depreciated	75,043
Transmission and distribution facilities	10,897,306
Waterline extensions	6,917,582
Equipment	653,016
Trucks	299,187
Buildings	1,021,568
Improvements	28,838
Fixed Assets being depreciated	19,817,497
Less accumulated depreciation	(6,522,090)
Net Fixed Assets being depreciated	13,295,407
Net Total Fixed Assets	13,370,450
Other Assets:	
Bond issuance costs (net of accumulated amortization of \$12,558)	6,767
Total Other Assets	6,767
DEFERRED OUTFLOWS OF RESOURCES	
Pension - District contributions subsequent to the measurement date	74,820
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 14,345,587

The notes to the financial statements are an integral part of this statement.

**MEADE COUNTY WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2015**

	2015
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 18,718
Notes payable - current portion	161,814
Customer deposits	25,680
Accrued expenses	7,890
Accrued retirement payable	7,254
Accrued vacation & sick leave	51,724
Total Current Liabilities	273,080
Long-Term Liabilities:	
Net pension liability	565,000
Notes payable	3,557,590
Less: Current portion of long-term debt	(161,814)
Total Long-Term Liabilities	3,960,776
Total Liabilities	4,233,856
DEFERRED INFLOWS OF RESOURCES	
Pension - Difference between projected and actual investment earnings	63,000
NET POSITION	
Unrestricted:	
Unrestricted	(2,162,766)
Contributed capital in aid of construction	2,398,637
Invested In Capital Assets, Net of Related Debt	9,812,860
Total Net Position	10,048,731
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 14,345,587

The notes to the financial statements are an integral part of this statement.

**MEADE COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015
Revenues:	
Water service	\$ 2,151,470
Total Revenues	2,151,470
Operating Expenses:	
Water test	11,162
Tools	2,402
Depreciation	517,448
Amortization	966
Payroll taxes	34,507
Utility tax	52,893
Other taxes and licenses	5,694
Salaries and wages	440,795
Commissioners pay	30,000
Employees pension and benefits	44,462
Water purchase	663,576
Purchased power	31,217
Repairs and maintenance	24,288
Billing expense	38,749
Materials and supplies	169
Professional fees	8,038
Contractual services	11,637
Transportation expense	18,320
Health insurance	107,026
Other insurance	25,830
Advertising	1,121
Public service assessment	3,971
Equipment rental	769
Office expenses	10,746
Uniforms	5,901
Telephone	11,347
Utilities	1,581
Dues, fees and training	8,779
Gravel	1,888
Miscellaneous	14,307
Total Operating Expenses	2,129,589
Operating income	21,881
Nonoperating revenue (expenses)	
Interest Income	1,238
Debt service-interest	(116,783)
Total Nonoperating revenues (expenses)	(115,545)
Loss Before Capital Contributions	(93,664)
Capital contributions	65,094
Change in Net Position	(28,570)
Net Position, January 1, 2015, as previously stated	10,660,301
Restatement due to adoption of GASB 68 and 71	(583,000)
Net Position, January 1, 2015, as restated	10,077,301
Net Position, December 31, 2015	\$ 10,048,731

**MEADE COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015**

	<u>2015</u>
Cash flows from operating activities	
Cash received from customers	\$ 2,093,466
Cash payments to suppliers for goods and services	(856,117)
Cash payments to employees for services	(646,247)
Cash payments for taxes and licenses	(93,094)
Cash payments to others	(40,137)
Net cash provided by operating activities	<u>457,871</u>
Cash flows from capital and related financing activities	
Contributed capital	65,094
Principal payments on loans	(218,236)
Interest paid	(116,783)
Net cash used by capital and related financing activities	<u>(269,925)</u>
Cash flows from investing activities	
Interest received	1,238
Purchase of fixed assets	(214,608)
Net cash used by investing activities	<u>(213,370)</u>
Net decrease in cash	(25,424)
Cash and restricted cash at January 1, 2015	625,748
Cash and restricted cash at December 31, 2015	<u>\$ 600,324</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating income	\$ 21,881
Adjustments	
Depreciation	517,448
Amortization	966
Net changes in assets and liabilities	
Accounts receivable	(58,544)
Inventory	(6,331)
Prepaid expenses	(1,447)
Deferred outflows and inflows	(11,820)
Accounts payable	5,741
Customer deposits	540
Accrued liabilities	7,437
Net pension liability	(18,000)
Net cash provided by operating activities	<u>\$ 457,871</u>
Supplemental Disclosures:	
Cash paid for interest	<u>\$ 116,783</u>

The notes to the financial statements are an integral part of this statement.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES

The Meade County Water District is a water distribution system organized under the laws of the State of Kentucky. The District is exempt from Federal, State and Local income taxes. It is controlled by a board of commissioners appointed by the County Judge-Executive. The District purchases its water from the Commission of Brandenburg and Hardin County #1 under a long-term contract and the sale of this water is the source of the district's operating revenue. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's utilities are charges to the customers for service or water. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Meade County Water District's policy is to prepare its financial statements using the economic resources measurement focus and the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the balance sheet, and revenues recorded when earned and expenses are recorded at the time liabilities are incurred. The Department's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply 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 guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent commercial accounting guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Accounts receivable is stated at gross amount due. Bad debts are charged directly to expense when management determines an account to be uncollectible. Management believes that all accounts receivable are collectible and that all bad debts have been written off.

Depreciation is provided on the straight-line method over the estimated economic useful life of the depreciable property, ranging from five to forty years. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation expense in 2015 was \$517,448.

The debt issue expense is amortized by the debt outstanding method over the term of the issue. Amortization expense in 2015 was \$966.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

NOTE 2 - CASH AND CASH EQUIVALENTS

The District reporting entity considers highly liquid investments (including assets) with an original maturity of three months or less when purchased to be cash equivalents. The District considers cash in bank to be cash equivalents. At December 31, 2015, the District has a total cash equivalents balance of \$595,543. \$316,134 at Meade County Bank and \$279,409 at The Cecilian Bank. Federal Deposit Insurance Corporation (FDIC) insurance is limited to \$250,000 and the District has \$535,000 in securities pledged from Meade County Bank. Accordingly, at December 31, 2015 \$-0- was unsecured from Meade County Bank and \$29,409 was unsecured from The Cecilian Bank.

NOTE 3 - LONG-TERM DEBT

Long-term debt at December 31, 2015 consisted of the following:

	<u>2015</u>
Bonds payable to United States Department of Agriculture payable in semi-annual principal and interest installments in June and December of each year with final payment in 2032. The interest rate is 5.0%.	\$ 304,000
Bonds payable to Kentucky Infrastructure Authority, payable in semi-annual principal and interest installments in June and December of each year with final payment in 2024. The interest rate is 3.0%.	\$ 206,908
Bonds payable to Kentucky Rural Water Finance Corp. payable in monthly principal and interest installments final payment in December, 2024, collateralized by Water Revenue. The interest rate is 5.081%.	\$ 323,000
Bonds payable to Kentucky Infrastructure Authority, principal payable on each June 1 and interest payable on each December 1 and June 1. The interest rate is 4.68%	\$ 65,000
Note payable to KACOLT, payable in monthly interest and yearly principal. Final payment in January, 2016. The interest rate is 5.28%	\$ 30,000

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

NOTE 3 - LONG-TERM DEBT (CONTINUED)

Note payable to Kentucky Infrastructure Authority, principal payable on each June 1 and interest payable on each December 1 and June 1. The interest rate is 3.00%.		\$ 572,682
Bonds payable to United States Department of Agriculture Rural Development payable in semi-annual principal and interest installments in January and July of each year with final payment in 2049. The interest rate is 4.125%.		<u>\$ 2,056,000</u>
Total Debt		\$ 3,557,590
Less: Current Portion		<u>161,814</u>
Long-Term Debt		<u>\$ 3,395,776</u>

NOTE 4 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable USDA	\$ 313,000	\$ -0-	\$ 9,000	\$ 304,000	\$ 10,000
Bonds payable KIA	226,660	-0-	19,752	206,908	20,348
Bonds payable KRWFC	353,000	-0-	30,000	323,000	32,000
Bonds payable KIA	75,000	-0-	10,000	65,000	10,000
Note payable KACOLT	60,000	-0-	30,000	30,000	30,000
Note payable KACOLT	62,000	-0-	62,000	-0-	-0-
Note payable KIA	605,166	-0-	32,484	572,682	33,466
Bonds payable USDA	<u>2,081,000</u>	<u>-0-</u>	<u>25,000</u>	<u>2,056,000</u>	<u>26,000</u>
Total Long-Term Liabilities	<u>\$ 3,775,826</u>	<u>\$ -0-</u>	<u>\$ 218,236</u>	<u>\$ 3,557,590</u>	<u>\$ 161,814</u>

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

NOTE 5 - BUDGET

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The office manager is responsible for preparing the proposed operating budget prior to each fiscal year commencing on January 1. The proposed operating budget is submitted to the Commissioners for approval.
2. Budgeted amounts are as originally adopted, or as amended by the Commissioners.

NOTE 6 – EMPLOYEE RETIREMENT BENEFITS

General Information about the Pension Plan

Plan description. Employees of the District are provided a defined benefit pension plan through the County Employees Retirement System ("CERS"), a cost sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System ("KRS"). The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's year of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of

the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

NOTE 6 – EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

General Information about the Pension Plan (Continued)

Contributions. Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of their salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015 and June 30, 2014, employers contributed 17.67% and 18.89% as set by KRS, respectively, of each Nonhazardous employee's creditable compensation, and 34.31% and 35.70%, respectively, for each Hazardous employee. For the year ended June 30, 2015 and June 30, 2014, total employer and employee contributions for the District were \$96,382 and \$98,022, respectively. By law, employer contributions are required to be paid. The KRS may intercept the District's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date (See Note 14 for a restatement related to the net pension liability.)

Actuarial assumptions. The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

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 Table for other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

NOTE 6 – EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Net Pension Liability (Continued)

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2005 through June 30, 2008. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
Domestic Equity	8.45%	30.00%
International Equity	8.85%	22.00%
Emerging Market Equity	10.50%	5.00%
Private Equity	11.25%	7.00%
Real Estate	7.00%	5.00%
Core US Fixed Income	5.25%	10.00%
High Yield US Fixed Income	7.25%	5.00%
Non US Fixed Income	5.50%	5.00%
Commodities	7.75%	5.00%
TIPS	5.00%	5.00%
Cash	3.25%	1.00%
		<u>100.00%</u>

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.75 percent based on a blending of the factors described above.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

NOTE 6 – EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Net Pension Liability (Continued)

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 the employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.75 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability - nonhazardous	\$ 744,153	\$ 565,000	\$ 407,646
Total	<u>\$ 744,153</u>	<u>\$ 565,000</u>	<u>\$ 407,646</u>

The District's proportionate share of the Plan's net pension liability, as indicated in the prior table, is \$565,000 for Nonhazardous. The District's proportioned share of the CERS plan was 0.017430% for Nonhazardous.

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. The District's proportioned share of pension expense was \$45,000 for Nonhazardous service employees.

Deferred outflows of resources and deferred inflows of resources. For the year ended December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources:

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

NOTE 6 – EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Net Pension Liability (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments		\$ 63,000
Contributions subsequent to the measurement date of June 30, 2014	\$ 74,820	
Total	\$ 74,820	\$ 63,000

Deferred inflows of resources resulting from the differences between projected and actual investment earnings on the Plan investments are amortized over a 5 year period. Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending December 31, 2016. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31, :

2016	\$ 62,220
2017	(12,600)
2018	(12,600)
2019	(12,600)
2020	(12,600)
	\$ 11,820

In the table shown above, positive amounts will increase pension expense and negative amounts will decrease pension expense.

NOTE 7 - RISK MANAGEMENT

The Meade County Water District is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission currently carries property and general liability insurance through Arch Insurance Company. Workman's Compensation insurance is carried through Kentucky Employers Mutual Insurance Now.

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

NOTE 8 – ESTIMATES

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

NOTE 9 – ADVERTISING COSTS

Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. Total non-direct-response advertising for 2015 amounted to \$1,121.

NOTE 10 – CONTRIBUTED CAPITAL IN AID OF CONSTRUCTION

Meade County Water District requires that each new customer be charged a fee of \$632 for installation, which was approved by the Public Service Commission. This fee is deposited into the contributed capital in aid of construction account to cover the cost of any needed expansion to the system. For 2015, the Commission collected \$52,344.

NOTE 11 – RESTRICTED CASH

Meade County Water District is required to maintain several cash accounts that are restricted:

Customer Deposits Account – The District is required to maintain this account for customer deposits, which are to be given back to the customer when they leave the district.	\$ 25,419
Reserves Account – The District is required to maintain a reserve account to be used to replace capital expenditures.	31,468
Debt Service Account – The District is required to maintain this account to pay off the debt from Farmers Home Administration.	102,332
Maintenance and Replacement Reserve Account – The District is	

required to maintain this account as a reserve for a loan.

33,989

**MEADE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

NOTE 11- RESTRICTED CASH (CONTINUED)

Rural Development Depreciation Reserve Fund - The District is required to maintain this account as a reserve for a loan. 59,064

Construction Accounts – The District is required to maintain these account to pay the debt occurred for extension projects. 1,456

Total Restricted Cash \$ 253,728

NOTE 12 – SUBSEQUENT EVENTS POLICY

The District has evaluated subsequent events through March 18, 2016, the date which the financial statements were available to be issued.

NOTE 13 - RESTATEMENT OF NET POSITION RELATED TO YEAR ENDING DECEMBER 31, 2014

Net position for governmental activities for December 31, 2014 was restated to implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*- an amendment of GASB Statement No. 68 and to record beginning net pension liability and deferred outflows related to the pension.

Net position - December 31, 2014, prior to restatement		\$ 10,660,301
Increase in Net Pension Liability	(640,000)	
Increase in Deferred Outflows	<u>57,000</u>	
Decrease in Net Position		<u>(583,000)</u>
Net position - December 31, 2014, as restated		<u>\$ 10,077,301</u>

**MEADE COUNTY WATER DISTRICT
 SUPPLEMENTAL SCHEDULE
 KENTUCKY RURAL WATER FINANCE BONDS
 SERIES 2001A
 DECEMBER 31, 2015**

<u>YEAR</u>	<u>Principal Installments, Series A Bonds</u>
2016	\$ 32,000
2017	33,000
2018	35,000
2019	38,000
2020	41,000
2021	44,000
2022	47,000
2023	49,000
2024	4,000
	\$ 323,000
	\$ 323,000

See Note 3 in the financial statements.

**MEADE COUNTY WATER DISTRICT
 SUPPLEMENTAL SCHEDULE
 WATER WORKS REVENUE BONDS OF 1992
 DECEMBER 31, 2015**

<u>YEAR</u>	<u>Principal Installments, Series A Bonds</u>
2016	\$ 10,000
2017	11,000
2018	11,000
2019	13,000
2020	13,000
2021	14,000
2022	15,000
2023	16,000
2024	17,000
2025	18,000
2026	20,000
2027	20,000
2028	22,000
2029	23,000
2030	25,000
2031	27,000
2032	29,000
	\$ 304,000
	\$ 304,000

See Note 3 in the financial statements.

**MEADE COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION (CONTINUED)
BONDS PAYABLE TO KENTUCKY INFRASTRUCTURE AUTHORITY
DECEMBER 31, 2015**

<u>YEAR</u>	<u>Principal Payments</u>
2016	\$ 10,000
2017	10,000
2018	10,000
2019	10,000
2020	10,000
2021	10,000
2022	5,000
	<hr/>
	\$ 65,000
	<hr/> <hr/>

See Note 3 in the financial statements.

**MEADE COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION (CONTINUED)
BONDS PAYABLE TO KENTUCKY ASSOCIATION OF COUNTIES LEASING TRUST
DECEMBER 31, 2015**

<u>YEAR</u>	<u>Principal Payments</u>
2016	<u>\$ 30,000</u>
	<u><u>\$ 30,000</u></u>

See Note 3 in the financial statements.

**MEADE COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION (CONTINUED)
BONDS PAYABLE TO KENTUCKY INFRASTRUCTURE AUTHORITY
DECEMBER 31, 2015**

<u>YEAR</u>	<u>Principal Payments</u>
2016	\$ 20,348
2017	20,963
2018	21,597
2019	22,250
2020	22,922
2021	23,615
2022	24,329
2023	25,064
2024	25,821
	<hr/>
	\$ 206,909
	<hr/> <hr/>

See Note 3 in the financial statements.

**MEADE COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION (CONTINUED)
BONDS PAYABLE TO KENTUCKY INFRASTRUCTURE AUTHORITY
DECEMBER 31, 2015**

<u>YEAR</u>	<u>Principal Payments</u>
2016	\$ 33,466
2017	34,477
2018	35,519
2019	36,593
2020	37,699
2021	38,839
2022	40,012
2023	41,222
2024	42,468
2025	43,751
2026	45,074
2027	46,436
2028	47,840
2029	<u>49,286</u>
	<u><u>\$ 572,682</u></u>

See Note 3 in the financial statements.

**MEADE COUNTY WATER DISTRICT
 SUPPLEMENTAL SCHEDULE
 WATERWORKS REVENUE BONDS
 SERIES 2010
 DECEMBER 31, 2015**

<u>YEAR</u>	<u>Principal Installments, Series A Bonds</u>
2016	\$ 26,000
2017	27,500
2018	28,500
2019	30,000
2020	31,500
2021	32,500
2022	34,000
2023	36,000
2024	37,500
2025	39,000
2026	41,000
2027	43,000
2028	45,000
2029	47,000
2030	49,000
2031	51,500
2032	54,000
2033	56,500
2034	59,000
2035	61,500
2036	64,500
2037	67,500
2038	70,500
2039	74,000
2040	77,500
2041	81,000
2042	84,500
2043	88,500
2044	92,500
2045	97,000
2046	101,500
2047	106,000
2048	111,000
2049	110,000
	110,000
	\$ 2,056,000

REQUIRED SUPPLEMENTARY INFORMATION

**MEADE COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
BUDGETED AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues:				
Water Service	\$ 1,261,800	\$ 1,261,800	\$ 2,151,470	\$ 889,670
Operating Expenses:				
Water test	3,080	3,080	11,162	8,082
Tools	500	500	2,402	1,902
Depreciation expense	-0-	-0-	517,448	517,448
Amortization	-0-	-0-	966	966
Payroll taxes	52,000	52,000	34,507	(17,493)
Utility tax	51,100	51,100	52,893	1,793
Other taxes and licenses	5,200	5,200	5,694	494
Salaries and wages	305,500	305,500	440,795	135,295
Commissioners pay	26,609	26,609	30,000	3,391
Employees pension and benefits	103,000	103,000	44,462	(58,538)
Water purchase	635,000	635,000	663,576	28,576
Purchased power	23,200	23,200	31,217	8,017
Repairs and maintenance	30,600	30,600	24,288	(6,312)
Billing expense	37,000	37,000	38,749	1,749
Materials and supplies	454	454	169	(285)
Professional fees	8,500	8,500	8,038	(462)
Contractual services	15,500	15,500	11,637	(3,863)
Transportation expense	35,482	35,482	18,320	(17,162)
Health insurance	125,000	125,000	107,026	(17,974)
Other insurance	26,400	26,400	25,830	(570)
Bad debts	10,000	10,000	-0-	(10,000)
Advertising	50	50	1,121	1,071
Public service assessment	3,941	3,941	3,971	30
Equipment rental	1,500	1,500	769	(731)
Office expenses	9,130	9,130	10,746	1,616
Uniforms	5,600	5,600	5,901	301
Telephone	11,900	11,900	11,347	(553)
Utilities	1,397	1,397	1,581	184
Dues, fees and training	3,300	3,300	8,779	5,479
Gravel	1,500	1,500	1,888	388
Miscellaneous	12,990	12,990	14,307	1,317
Total Operating Expenses	<u>1,545,433</u>	<u>1,545,433</u>	<u>2,129,589</u>	<u>584,156</u>
Operating Income (Loss)	(283,633)	(283,633)	21,881	305,514
Nonoperating revenue (expenses)				
Interest Income	1,800	1,800	1,238	(562)
Debt service-interest	(117,000)	(117,000)	(116,783)	217
Total Nonoperating revenues (expenses)	<u>(115,200)</u>	<u>(115,200)</u>	<u>(115,545)</u>	<u>(345)</u>
Net Income (Loss) before capital contributions	(398,833)	(398,833)	(93,664)	305,169
Capital contributions	-0-	-0-	65,094	65,094
Net Position, January 1, 2015	10,660,301	10,660,301	10,660,301	-0-
Restatement due to the adoption of GASB 68 and 71	-0-	-0-	(583,000)	(583,000)
	<u>10,660,301</u>	<u>10,660,301</u>	<u>10,077,301</u>	<u>(583,000)</u>
Net Position, December 31, 2015	<u>\$ 10,261,468</u>	<u>\$ 10,261,468</u>	<u>\$ 10,048,731</u>	<u>\$ (212,737)</u>

The notes to the financial statements are an integral part of this statement.

**MEADE COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IN COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED DECEMBER 31, 2015**

	June 30, 2014
	<u>Nonhazardous</u>
District's proportion of the net pension liability	0.017430%
District's proportionate share of the net pension liability	\$ 565,000
District's covered employee payroll	\$ 396,057
District's proportion of the net position liability as a percentage of its covered employee payroll	142.66%
Total Pension Plan Pension Liability	\$ 9,772,523,000
Total Pension Plan's Fiduciary Net Position	\$ 6,528,147,000
Total Pension Plan Net Pension Liability	\$ 3,244,376,000
Total Pension Plan's Fiduciary Net Position as a percentage of Total Pension Liability	66.80%

The notes to the financial statements are an integral part of this statement.

**MEADE COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF District'S CONTRIBUTIONS TO
THE COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED DECEMBER 31, 2015**

		<u>December 31, 2015</u>
		<u>Nonhazardous</u>
Statutorily required contribution for pension	\$	74,820
District's contributions in relation to the statutorily required contribution		<u>(74,820)</u>
Annual contribution deficiency (excess)	\$	<u>-0-</u>
District's contributions as a percentage of statutorily required contribution for pension		100.00%
District's covered employee payroll	\$	423,430
Contributions as a percentage of its covered employee payroll		17.67%

NOTES TO SCHEDULES RELATED TO THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS INFORMATION

Valuation date: Actuarially determined contribution rates for 2015 were calculated based on the June 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level of Percentage of Payroll, closed
Remaining amortization period	29 years
Asset valuation	5-year smoothed market
Inflation	3.5%
Salary increases	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of investment expense, including inflation

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTARY INFORMATION

**MEADE COUNTY WATER DISTRICT
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015**

1. Insurance Coverage

<u>POLICY NUMBER</u>	<u>INSURANCE COMPANY AND ADDRESS</u>	<u>EXPIRATION DATE OF POLICY</u>
Insurance Policy # GWPKG0097708	Arch Insurance Co. 300 Plaza 3 rd Floor Jersey District, NJ 07311	7/1/2016

<u>TYPE</u>	<u>COVERAGE</u>
General Liability	\$ 3,000,000
Auto Liability	\$ 1,000,000
Property - Buildings	\$ 1,000 Deductible
Government crime	\$ 100,000
Flood coverage	\$ 500,000

2. Water and/or Sewer Utility Borrowers Only

A. Water purchased	351,149,000
B. Water sold	297,025,719
C. Water in storage tanks & lines	3,074,596
D. Treated waste	N/A
E. Number of users – Water	4,950
F. Number of users – Sewer	N/A

**MEADE COUNTY WATER DISTRICT
SUPPLEMENTARY INFORMATION (CONTINUED)
DECEMBER 31, 2015**

3. Distribution of All Cash and Investments

Appropriate bank accounts have been set up as required by grant and bond resolution agreements. All accounts are interest bearing checking accounts. Federal Deposit Insurance Corporation (FDIC) insurance is limited to \$250,000 and the District has \$535,000 in securities pledged from Morgan Keegan at Meade County Bank. At December 31, 2015, the unsecured amount is \$29,409 at The Cecilian Bank and \$ -0- at Meade County Bank.

4. Aged Accounts Receivable at December 31, 2015 were as follows

	DAYS				TOTAL
	0-30	31-60	61-90	OVER 90	
Dollar Values	<u>\$ 110,670</u>	<u>\$ 4,657</u>	<u>\$ 3,291</u>	<u>\$ 109,707</u>	<u>\$ 228,325</u>

5. List of commissioners

NAME	ADDRESS	TERM	
		YEARS	EXPIRATION DATE
Doug Cornett, Chairman	125 Cornett Lane Guston, KY 40142	4	July 1, 2019
Allen Stivers, Treasurer	710 Payne Road Ekron, KY 40117	4	July 1, 2017
Norman Boothe, Secretary	58 St. Martins Road Vine Grove, KY 40175	4	June 20, 2019
Wesley Prather, Commissioner	905 Whelan Road Vine Grove, KY 40175	4	July 1, 2017
Mickey Chism, Commissioner	5520 Midway Road Brandenburg, KY 40108	4	July 1, 2016

William A. Talley
Jon D. Chesser
Bob E. Wientjes

Kentucky Offices:
Louisville
Brandenburg
Bardstown

**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**

Commissioners
Meade County Water District
Brandenburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Meade County Water District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Meade County Water District's basic financial statements, and have issued our report thereon dated March 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Meade 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Meade County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Meade 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 that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies [Finding 2015-1].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Meade 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*.

Meade County Water District's Response to Findings

Meade County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Meade County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.



Louisville, Kentucky
March 18, 2016

**MEADE COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2015**

FINDING 2015-1: *Adequate Segregation of Duties*

Condition: This finding was a significant deficiency stating that the District needed adequate segregation of duties among personnel.

Recommendation: The auditor informed the District that management should implement procedures requiring approval, recordkeeping and reconciliation to be completed by different employees to obtain a proper segregation of duties. Individuals in the accounting process should not have the ability to initiate, record, and reconcile the accounting transactions.

Response: The District is aware of the condition, but due to the limited number of personnel and budgetary constraints a proper segregation of duties would be difficult. The District will take steps to improve the segregation of duties among personnel as completely as possible.