

**PENDLETON COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

# **PENDLETON COUNTY WATER DISTRICT**

## **FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

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**PENDLETON COUNTY WATER DISTRICT**

**BOARD OF COMMISSIONERS**

**December 31, 2015 and 2014**

L.R. Faulkner, Jr., Chairman

Dave Boden, Vice-Chairman

Brent Moore, Treasurer

Larry "Rick" Adams, Secretary

Joe Strange, Commissioner

**Of Counsel**

Jeff Dean, Pendleton County Attorney

**Administration**

Ricky King, General Manager



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

Charles A. Van Gorder, CPA  
Lori A. Owen, CPA  
John R. Chamberlin, CPA, MBA  
Members of AICPA & KyCPA  
Licensed in Kentucky & Ohio

## Independent Auditor's Report

To the Board of Commissioners  
Pendleton County Water District

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Pendleton County Water District (District), 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 an opinion 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 audits 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 financial position of the business-type activities of Pendleton County Water District as of December 31, 2015 and 2014 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

***-Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5–9 and pension disclosure information on page 26 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 audits 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Pendleton County Water District's basic financial statements. The supplementary schedules on page 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules 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 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2016 on our consideration of Pendleton 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 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 Pendleton County Water District's internal control over financial reporting and compliance.

*Van Gorder, Walker + Co., Inc.*

Van Gorder, Walker & Co., Inc.  
Erlanger, Kentucky  
March 24, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2015. The information is presented in conjunction with the audited financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the most recent year by \$8,264,172 (net position). This was an increase of \$22,322 in comparison to the prior year.
- At the end of the current year, unrestricted net position was \$1,084,942.

### **USING THIS ANNUAL REPORT**

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statements No. 34 through 70. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

#### **Basis of Accounting**

The District's financial statements are prepared using the accrual basis of accounting.

#### **The Statements of Net Position and Revenues, Expenses and Changes in Net Position**

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of providing potable water to those customers.

## SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2015 and 2014.

	<b>Table 1</b>	
	<b>Net Position</b>	
	<u>2015</u>	(Restated) <u>2014</u>
Current Assets	\$ 553,482	\$ 382,652
Restricted Assets	1,460,470	1,423,401
Noncurrent Assets	<u>8,575,917</u>	<u>8,736,388</u>
<b>Total Assets</b>	<b>10,589,869</b>	<b>10,542,441</b>
Deferred Outflows of Resources – Pension Contribution	<u>68,473</u>	<u>27,088</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>10,658,342</u></b>	<b><u>10,569,529</u></b>
Current Liabilities	90,487	97,680
Liabilities Payable from Restricted Assets	140,114	122,634
Long Term Liabilities	<u>2,093,136</u>	<u>2,066,409</u>
<b>Total Liabilities</b>	<b>2,323,737</b>	<b>2,286,723</b>
Deferred Inflows of Resources – Pension Performance	<u>70,433</u>	<u>40,955</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b><u>2,394,170</u></b>	<b><u>2,327,678</u></b>
<b>Net Position:</b>		
Net investment in Capital Assets	6,917,472	7,063,606
Restricted	261,758	234,010
Unrestricted	<u>1,084,942</u>	<u>944,234</u>
<b>Total Net Position</b>	<b><u>\$ 8,264,172</u></b>	<b><u>\$ 8,241,850</u></b>

The District's net position for 2015 increased 0.3% or \$22,322 as compared to a 0.4% or \$38,248 increase in the previous year. The change in net position for 2015 is half of what it was in 2014. This is primarily due to a significant change in the net effect of change in pension expense, which is a non-operating expense.

The largest portion of the District's net position (83.7%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position (3.2%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

## SUMMARY OF CHANGES IN NET POSITION

### Revenues

Water revenues decreased 1.9% from 2014 to 2015. The decrease was a result of a wetter, cooler year during 2015 than we had in 2014.



Water Costs

Water costs decreased \$3,863 or 0.94% from 2014 to 2015. Water consumption decreased as a result of decreased water sales.

Operation and Maintenance Expense

Operation and maintenance expense decreased 12.4% from 2014 to 2015. This decrease was primarily due to a decrease in salaries and benefits expenses due to the retirement of two long-time employees.

Capital Contributions

Capital contributions increased slightly by \$1,157 from 2014 to 2015. .

Prior Period Adjustment

The District has recognized, as of June 30, 2014, the net pension liability, net of deferred outflows of resources, of \$488,654. This adjustment was required under Government Accounting Standards Board (GASB) Statement No. 68.

The following schedule compares the revenues and expenses for the current year and the previous year.

**Table 2  
Changes in Net Position**

	<u>2015</u>	(Restated) <u>2014</u>
Operating Revenues:		
Water Sales	\$1,301,931	\$1,328,857
Forfeited Discounts	25,075	24,173
Miscellaneous Services Revenues	<u>17,938</u>	<u>17,744</u>
Total Operating Revenues	<u>1,344,944</u>	<u>1,370,774</u>
Operating Expenses:		
Water Purchased	407,528	411,391
Operation and Maintenance Expense	584,231	666,515
Depreciation	<u>223,660</u>	<u>224,593</u>
Total Operating Expenses	<u>1,215,419</u>	<u>1,302,499</u>
Net Operating Profit	<u>129,525</u>	<u>68,275</u>
Non-Operating Income (Expenses)		
Investment Income	7,799	7,299
Gain (Loss) on Disposition of Assets	(11,552)	2,358
Net Effect on Change in Pension Expense	(44,655)	16,159
Interest on Long-Term Debt	(58,310)	(75,980)
Debt Issue Costs	(37,953)	-
Amortization of Bond Premium	<u>2,269</u>	<u>2,253</u>
Net Non-Operating Expenses	<u>(142,402)</u>	<u>(47,911)</u>
Income/ (Loss) Before Capital Contributions	(12,877)	20,364
Capital Contributions	<u>35,199</u>	<u>34,043</u>
Change in Net Position	22,322	54,407
Net Position – January 1	8,241,850	8,676,097
Prior Period Adjustment	<u>-</u>	<u>(488,654)</u>
Net Position – December 31	<u>\$8,264,172</u>	<u>\$ 8,241,850</u>

Net operating profit increased by \$61,250 over the previous year due to an \$82,284 reduction in operations and maintenance expenses.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2015, the District had \$8,575,917 invested in capital assets including land, buildings, water systems, equipment, and vehicles, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$160,471. During 2015 depreciation expense exceeded the cost of new assets put into service resulting in a decrease in the amount invested in capital assets during 2015.

Table 3 Summarizes the District's capital assets at the end of 2015 as compared to 2014.

**Table 3  
Capital Assets at Year End**

	<u>2015</u>	<u>2014</u>
Land	\$ 63,176	\$ 63,176
Transmission Lines & Equipment	12,351,999	12,325,539
Furniture & Fixtures	55,605	57,646
Machinery & Equipment	324,675	324,675
Buildings & Improvements	335,092	326,312
Construction in Progress	<u>20,590</u>	<u>-</u>
Subtotal	13,151,137	13,097,348
Accumulated Depreciation	<u>(4,575,220)</u>	<u>(4,360,960)</u>
Total Capital Assets	<u>\$ 8,575,917</u>	<u>\$ 8,736,388</u>

### Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2015 compared to 2014.

**Table 4  
Outstanding Debt at Year End**

	<u>2015</u>	<u>2014</u>
Bond Payable Obligations	\$ 1,622,000	\$1,626,500
Capitalized Lease	<u>18,000</u>	<u>26,000</u>
Total	<u>\$ 1,640,000</u>	<u>\$1,652,500</u>

At year-end, the District had \$1,640,000 in outstanding bonds and leases compared to \$1,652,500 last year. This is a decrease of \$12,500 or 0.76%. The small decrease is due to scheduled debt repayment by the District coupled with no payment being made in the current year on the new refunding bond.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District's budget for 2016 projects net income to return to approximately the same amount as reported during 2014. Both operating and non-operating income and expenses are expected to be approximately the same as in 2014. Capital contributions are expected to increase approximately \$24,000 over the amounts reported in 2015 and 2014. This increase is due to additional contributions and grant funds related to a small construction project that the District expects to complete during 2016.

## **FINANCIAL CONTACT**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 331 Highway 330 West, Falmouth, Kentucky 41040.

Rick King, General Manager  
Pendleton County Water District

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>STATEMENTS OF NET POSITION</b> <b>December 31, 2015 and 2014</b>
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<b>ASSETS</b>		<i>Restated</i>
Current Assets	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 352,392	\$ 176,391
Accounts receivable	147,159	150,211
Inventories	30,450	33,276
Prepays	23,090	22,480
Accrued interest income	391	294
<b>Total Current Assets</b>	<u>553,482</u>	<u>382,652</u>
<b>Restricted Assets</b>		
Improvement, repair, and replacement	1,123,917	1,117,041
Depreciation reserve	189,506	204,591
Bond sinking fund	112,750	63,829
Customer deposits	34,297	37,940
<b>Total Restricted Assets</b>	<u>1,460,470</u>	<u>1,423,401</u>
<b>Capital Assets</b>		
Land, building, transmission system, equipment, and vehicles	13,151,137	13,097,348
Less: accumulated depreciation	(4,575,220)	(4,360,960)
<b>Total Capital Assets, net of depreciation</b>	<u>8,575,917</u>	<u>8,736,388</u>
<b>TOTAL ASSETS</b>	<b>10,589,869</b>	<b>10,542,441</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Pension contributions	68,473	27,088
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<u>10,658,342</u>	<u>10,569,529</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	53,035	59,622
Accrued and withheld liabilities	37,452	38,058
<b>Total Current Liabilities</b>	<u>90,487</u>	<u>97,680</u>
<b>Current Liabilities Payable From Restricted Assets</b>		
Revenue bonds and lease obligations - current portion	80,500	65,000
Customer deposits	37,124	35,781
Accrued interest payable	22,490	21,853
<b>Total Current Liabilities Payable From Restricted Assets</b>	<u>140,114</u>	<u>122,634</u>
<b>Long-Term Liabilities</b>		
Bonds	1,549,500	1,569,500
Capital lease payable	10,000	18,000
Unamortized premium on debt	18,445	20,282
Net unfunded pension liability	515,191	458,627
<b>Total Long-Term Liabilities</b>	<u>2,093,136</u>	<u>2,066,409</u>
<b>TOTAL LIABILITIES</b>	<b>2,323,737</b>	<b>2,286,723</b>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Deferred inflow related to pensions	70,433	40,955
<b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	<u>2,394,170</u>	<u>2,327,678</u>
<b>NET POSITION</b>		
Net investment in capital assets	6,917,472	7,063,606
Restricted	261,758	234,010
Unrestricted	1,084,942	944,234
<b>TOTAL NET POSITION</b>	<u>\$ 8,264,172</u>	<u>\$ 8,241,850</u>

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

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b> <b>For the Years Ending December 31, 2015 and 2014</b>
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	<u>2015</u>	<i>Restated</i> <u>2014</u>
<b>OPERATING REVENUES</b>		
Water revenue	\$ 1,327,006	\$ 1,353,030
Other service revenues	17,938	17,744
<b>TOTAL OPERATING REVENUES</b>	<u>1,344,944</u>	<u>1,370,774</u>
<b>OPERATING EXPENSES</b>		
Water purchased	407,528	411,391
Operations, maintenance, and administrative expenses	584,231	666,515
Depreciation	223,660	224,593
<b>TOTAL OPERATING EXPENSES</b>	<u>1,215,419</u>	<u>1,302,499</u>
<b>OPERATING PROFIT</b>	<u>129,525</u>	<u>68,275</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Investment income	7,799	7,299
Gain (loss) on disposal of assets	(11,552)	2,358
Net effect of change in pension expense	(44,655)	16,159
Interest on long-term obligations	(58,310)	(75,980)
Debt issuance cost	(37,953)	-
Amortization of bond premium	2,269	2,253
<b>NET NON-OPERATING EXPENSES</b>	<u>(142,402)</u>	<u>(47,911)</u>
<b>NET INCOME (LOSS)</b>	<u>(12,877)</u>	<u>20,364</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>35,199</u>	<u>34,043</u>
<b>CHANGE IN NET POSITION</b>	<u>22,322</u>	<u>54,407</u>
<b>NET POSITION, JANUARY 1</b>	8,241,850	8,676,097
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>-</u>	<u>(488,654)</u>
<b>NET POSITION, DECEMBER 31</b>	<u>\$ 8,264,172</u>	<u>\$ 8,241,850</u>

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

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>STATEMENTS OF CASH FLOWS</b> <b>For the Years Ending December 31, 2015 and 2014</b>
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	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 1,347,996	\$ 1,371,088
Paid to suppliers for goods and services	(608,479)	(627,889)
Paid to or on behalf of employees for services	(388,257)	(455,421)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>351,260</u>	<u>287,778</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition and construction of fixed assets	(74,741)	(154,282)
Proceeds from sale of fixed assets	-	2,508
Interest received on investments	7,702	7,312
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(67,039)</u>	<u>(144,462)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on long term debt	(1,222,500)	(62,000)
Interest paid on long term debt	(57,672)	(76,404)
Proceeds from loan financing, net of issuance costs	1,172,479	-
Contributed capital received	35,199	24,073
Grant proceeds	-	9,969
Decrease (Increase) in restricted cash	(37,069)	(54,967)
Increase (Decrease) in customer deposits	1,343	760
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(108,220)</u>	<u>(158,569)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	176,001	(15,253)
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR</b>	<u>176,391</u>	<u>191,644</u>
<b>CASH AND CASH EQUIVALENTS-END OF YEAR</b>	<u>\$ 352,392</u>	<u>\$ 176,391</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 129,525	\$ 68,275
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	223,660	224,593
Change in operating assets and liabilities		
Decrease (Increase) in receivables	3,052	1,381
Decrease (Increase) in inventories	2,826	9,512
Decrease (Increase) in prepaid assets	(610)	(1,880)
Increase (Decrease) in accounts payable	(6,587)	642
Increase (Decrease) in other accrued liabilities	(606)	(14,745)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 351,260</u>	<u>\$ 287,778</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest expensed	<u>\$ (58,310)</u>	<u>\$ (75,980)</u>

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

**PENDLETON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2015 and 2014**

**NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES**

The Pendleton County Water District (District) is a water utility, which provides service to residential and commercial customers in Pendleton County, Kentucky. The District was created by the Pendleton County Fiscal Court under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”) in 1958. The District’s current service area includes parts of Pendleton, Campbell, and Grant Counties.

**Regulatory Requirements**

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

**Basis of Accounting**

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District has adopted GASB Statements 66 through 70, and related interpretations issued through December 31, 2015.

**Statement No. 70 – Accounting and Financial Reporting for Non-exchange Financial Guarantees** – This statement is not currently applicable to Pendleton County Water District.

**Statement No. 69 – Government Combinations and Disposals of Government Operations** – This statement is not currently applicable to Pendleton County Water District.

**Statement No. 68 – Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27** – Requires Pendleton County Water District to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on Pendleton County Water District’s Balance Sheet. This statement became effective for fiscal periods beginning after June 15, 2015.

**Statement No. 67 – Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25** – This statement is not currently applicable to Pendleton County Water District.

**Statement No. 66 – Technical Corrections – 2012; an amendment of GASB Statements no. 10 and 62** – This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 and No. 62.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
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associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

**Cash Equivalents**

For purposes of the statements of net position and statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Budgets**

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government's website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

**Inventories**

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

**Distribution System, Building, and Equipment**

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of the Statements of Revenues, Expenses, and Changes in Net Position.

**Construction in Progress**

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress". When the related asset is ready for use, related costs are transferred to the related asset account.

**Capital Contributions**

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors.

During 2015 and 2014 these contributions consisted of the following:

<u>Source</u>	<u>2015</u>	<u>2014</u>
Tap in fees and construction costs paid by new customers	\$ 35,199	\$ 24,073
Construction funding from State of Kentucky	-	9,969
Total	<u>\$ 35,199</u>	<u>\$ 34,042</u>



**PENDLETON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2015 and 2014**

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the statement of net position as "Cash and Cash Equivalents" and "Restricted Assets". At December 31, 2015 and 2014, the bank balances were \$352,392 and \$176,391, respectively, which were the same as the carrying amount. The District has amounts on deposit with three banks in excess of FDIC insured amounts. The banks have pledged collateral to cover such excess amounts. Funds in excess of current expenses or obligations of the District are invested in certificates of deposit issued by, or other interest bearing accounts of, banks that are insured by the Federal Deposit Insurance Corporation.

Effective January 1, 1998, investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value.

The District's investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2015. The categories are described as follows:

Category 1 - Insured and registered, with securities held by the entity or its agent in the entity's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name;

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
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	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Deposits	\$ 921,429	\$ -	\$ -	\$ 921,429	\$ 921,429
Investments	808,075	-	83,358	891,433	891,433
<b>Total</b>	<b>\$ 1,729,504</b>	<b>\$ -</b>	<b>\$ 83,358</b>	<b>\$ 1,812,862</b>	<b>\$ 1,812,862</b>

In accordance with GASB 40, the District has \$83,358 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa. The market risk on these investments is negligible.

### NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets, net of related liabilities, not included in the above categories.

Included in the restricted portion of net position at December 31,

	2015	2014
Depreciation Reserve Fund	\$ 184,500	\$ 179,760
Bond Sinking Fund	77,558	54,250
<b>Total Restricted Net Position</b>	<b>\$ 262,058</b>	<b>\$ 234,010</b>

### NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment, including infrastructure assets, are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
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The property, plant and equipment accounts are summarized as follows:

Asset Type	Balance at December 31, 2014	Additions	Retirements	Balance at December 31, 2015
Land	\$ 63,176	\$ -	\$ -	\$ 63,176
Buildings and improvements	326,312	8,780	-	335,092
Distribution reservoirs and standpipes	786,103	-	-	786,103
Furniture and fixtures	57,646	1,579	(3,620)	55,605
Hydrants	180,577	10,988	-	191,565
Meter system and installation	569,488	-	-	569,488
Other plant and misc. equipment	114,272	-	-	114,272
Pumping equipment	447,024	13,675	(17,332)	443,367
Services	730,560	16,807	-	747,367
Tools and equipment	25,843	-	-	25,843
Transmission mains	9,611,787	2,322	-	9,614,109
Transportation equipment	184,560	-	-	184,560
Construction in progress	-	20,590	-	20,590
Subtotal	13,097,348	74,741	(20,952)	13,151,137
Accumulated depreciation	(4,360,960)	(223,660)	9,400	(4,575,220)
Capital Assets, net	\$ 8,736,388	\$ (148,919)	\$ (11,552)	\$ 8,575,917

**NOTE 5 – BONDED INDEBTEDNESS**

Water Works System Revenue Bonds, U.S. Department of Agriculture 1977

On May 26, 1978, the District sold \$263,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. All bonds mature on December 1<sup>st</sup> of each year beginning in 1980, ending in 2017. Interest is payable on June 1<sup>st</sup> and December 1<sup>st</sup> and principal is due in annual installments on December 1<sup>st</sup> through 2017. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	5.00%	\$ 14,000	\$ 1,450	\$ 15,450
2017	5.00%	15,000	750	15,750
Totals		\$ 29,000	\$ 2,200	\$ 31,200

Water Works System Revenue Bonds, U.S. Department of Agriculture 1997

On April 2, 1998, the District sold \$747,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represented collateral on the bonds. All bonds matured on December 1<sup>st</sup> of each year beginning in 2000 and ending in 2037. Interest was payable on June 1<sup>st</sup> and December 1<sup>st</sup> of each year and principal was due in annual installments on December 1<sup>st</sup> through 2037. These bonds were refunded with the new 2015 bond issuance, noted below.

Water Works System Revenue Bonds, U.S. Department of Agriculture 2004

On January 29, 2005, the District sold \$596,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. All bonds

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
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matured on January 1<sup>st</sup> of each year beginning in 2007, with debt service requirements beginning in 2006, and ending in 2044. Interest was payable on January 1<sup>st</sup> and July 1<sup>st</sup> of each year and principal was due in annual installments on January 1<sup>st</sup> through 2044. These bonds were refunded with the new 2015 bond issuance, noted below.

Water Works System Revenue Bonds, U.S. Department of Agriculture 2010

On July 30, 2010, the District sold \$220,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. All bonds mature on January 1<sup>st</sup> of each year beginning in 2012, with debt service requirements beginning in 2010, and ending in 2049. Interest and principal are due in annual installments on January 1<sup>st</sup> through 2049. The remaining debt service is as follows:

Year	Rates	Amount	Amount	Debt Service
2016	3.25%	\$ 3,500	\$ 6,703	\$ 10,203
2017	3.25%	3,500	6,589	10,089
2018	3.25%	3,500	6,476	9,976
2019	3.25%	3,500	6,362	9,862
2020	3.25%	4,000	6,240	10,240
2021-2025	3.25%	21,000	29,218	50,218
2026-2030	3.25%	25,000	25,496	50,496
2031-2035	3.25%	29,500	21,084	50,584
2036-2040	3.25%	35,500	15,803	51,303
2041-2045	3.25%	42,000	9,506	51,506
2046-2049	3.25%	37,000	2,340	39,340
Totals		<u>\$ 208,000</u>	<u>\$ 135,817</u>	<u>\$ 343,817</u>

Kentucky Rural Water Finance Corporation

On March 27, 2013, The District entered into a loan agreement with the Kentucky Rural Water Finance Corporation (KRWFC) for a promissory note in the amount of \$215,000. Concurrent with this loan agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2013C which refunded the District's Series 2001A bond. The water systems represent collateral on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on January 1 beginning in 2014 and ending January 1, 2024. Interest is payable January 1 and July 1 of each year. These bonds were issued at a premium of \$24,225 which is being amortized over the life of the bonds. As of December 31, 2015, \$2,253 of the premium was amortized. The District achieves substantial interest cost savings under this program. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	3.300%	\$ 20,000	\$ 7,145	\$ 27,145
2017	4.300%	20,000	6,385	26,385
2018	4.300%	20,000	5,525	25,525
2019	4.300%	20,000	4,665	24,665
2020	4.300%	25,000	3,697	28,697
2021-2024	4.3%-4.8%	70,000	5,825	75,825
Totals		<u>\$ 175,000</u>	<u>\$ 33,242</u>	<u>\$ 208,242</u>

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
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Kentucky Rural Water Finance Corporation

On February 19, 2015, The District entered into an assistance agreement with the Kentucky Rural Water Finance Corporation for a loan in the amount of \$1,210,000. Concurrent with this agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2015B which refunded the District's outstanding Series 1977 Bonds and Series 2004 Bonds. The water systems represent collateral on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on February 1 beginning in 2016 and ending February 1, 2041. Interest is payable February 1 and August 1 of each year. These bonds were issued at a premium of \$432 which is being amortized over the life of the bonds. As of December 31, 2015, \$17 of the premium was amortized. The District achieves substantial interest cost savings under this program. The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2016	2.250%	\$ 35,000	\$ 37,669	\$ 72,669
2017	2.250%	35,000	36,881	71,881
2018	2.250%	35,000	36,094	71,094
2019	2.250%	40,000	35,250	75,250
2020	2.250%	40,000	34,350	74,350
2021-2025	3.250%	215,000	154,319	369,319
2026-2030	3.250%	255,000	116,656	371,656
2031-2035	3.250%-3.375%	320,000	69,525	389,525
2036-2040	3.375%-3.625%	210,000	17,972	227,972
2041	3.625%	25,000	453	25,453
Totals		<u>\$ 1,210,000</u>	<u>\$ 539,169</u>	<u>\$ 1,749,169</u>

**NOTE 6 – CAPITAL LEASE**

In 1997, the District signed a capital sublease agreement for its office and storage facilities. The leased property of \$137,718 is included in buildings and improvements on the fixed asset summary in Note 4 and represents collateral on the lease. Amortization of the lease is included in depreciation expense. Accumulated amortization amounted to \$60,826 and \$64,269 at December 31, 2014 and 2015, respectively. Future minimum lease payments are as follows:

<u>Year</u>	<u>Rent Amount</u>	<u>Interest Amount</u>	<u>Total Lease Payment</u>
2016	\$ 8,000	\$ 680	\$ 8,680
2017	10,000	53	10,053
Totals	<u>\$ 18,000</u>	<u>\$ 733</u>	<u>\$ 18,733</u>

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
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**NOTE 7 – INDEBTEDNESS SUMMARY**

The changes in long-term indebtedness are as follows:

Debt Instrument	Balance at December 31, 2014	Additions	Retirements	Balance at December 31, 2015
Revenue bonds of 1977	\$ 42,000	\$ -	\$ (13,000)	\$ 29,000
Revenue bonds of 1997	640,500	-	(640,500)	-
Revenue bonds of 2004	538,000	-	(538,000)	-
Revenue bonds of 2010	211,000	-	(3,000)	208,000
Kentucky Rural Water Finance Corp.	195,000	-	(20,000)	175,000
Kentucky Rural Water Finance Corp.	-	1,210,000	-	1,210,000
Capitalized lease	26,000	-	(8,000)	18,000
Subtotal	1,652,500	<u>\$ 1,210,000</u>	<u>\$ (1,222,500)</u>	1,640,000
Less: current portion of long-term debt	(65,000)			(80,500)
Total Long-Term Indebtedness	<u>\$ 1,587,500</u>			<u>\$ 1,559,500</u>

**NOTE 8 – OPERATING LEASE**

The District entered into an operating lease for a new copier, beginning May 2013 and continuing through April 2018. Payments under this lease were \$2,217 in 2015. Future minimum lease payments are as follows:

Year	Lease Payments
2016	\$ 2,217
2017	2,217
2018	554
Totals	<u>\$ 4,988</u>

**NOTE 9 – EMPLOYEE RETIREMENT SYSTEM**

The District participates in the County Employees' Retirement System of Kentucky ("Plan"). The Plan is a cost-sharing, multi-employer public retirement plan created by and operating under Kentucky law. It is a defined benefit plan that covers substantially all regular employees of the District. The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The Plan provides for retirement, disability and death benefits.

Participating non-hazardous employees contribute 5% of their creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of un-funded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
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**Contributions**

The District contributed 17.67% (from January – June of 2015) and 17.06% (from July – December of 2015) of the non-hazardous duty employee’s compensation during the year ended December 31, 2015. The District made all required contributions for the Plan pension obligation for the fiscal year ended December 31, 2015 in the amount of \$47,610.

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

At December 31, 2015, the District reported a liability of \$515,191 as 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 employer allocation proportion was 0.01198% of the total CERS non-hazardous duty employees. For the year ended December 31, 2015, the District recognized pension expense of \$47,610.

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 3,061	\$ -
Net difference between projected and actual earnings on plan investments	3,694	70,433
Changes of assumptions	37,150	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	24,568	-
<b>Total</b>	<b>\$ 68,473</b>	<b>\$ 70,433</b>

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

In 2015, \$68,473 was recognized as a deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, d) changes in proportion share.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
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These amounts are being amortized as follows:

**Deferred Outflows of Resources**

	Amount Deferred	Amount Amortized	Net Deferral Balance
<b>5.0 Years Amortization Period</b>			
Recognized in previous years	\$ -	\$ -	\$ -
Recognized in current year			
Difference in earnings	4,618	924	3,694
Subtotal	<u>4,618</u>	<u>924</u>	<u>3,694</u>
<b>3.51 Years Amortization Period</b>			
Recognized in previous years	-	-	-
Recognized in current year			
Actuarial losses	4,281	1,220	3,061
Changes in assumptions	51,951	14,801	37,150
Changes in proportion share	-	-	-
Subtotal	<u>56,232</u>	<u>16,021</u>	<u>40,211</u>
<b>0 Years Amortization Period</b>			
Recognized in current year			
Contributions since measurement date	24,568	-	24,568
Subtotal	<u>24,568</u>	<u>-</u>	<u>24,568</u>
	<u>\$ 85,418</u>	<u>\$ 16,945</u>	<u>\$ 68,473</u>

Future amortization of will be recognized as an offset to pension expense as follows:

Actuarial Losses 3.51 Year Amortization Period		Difference in Earnings 5 Year Amortization Period	
Year Ending December 31,	Net Deferral Amortization	Year Ending December 31,	Net Deferral Amortization
2016	\$ 1,220	2016	\$ 924
2017	1,220	2017	924
2018	621	2018	924
	<u>\$ 3,061</u>	2019	922
			<u>\$ 3,694</u>
Changes in Assumptions 3.51 Year Amortization Period		Changes in Proportion 3.51 Year Amortization Period	
Year Ending December 31,	Net Deferral Amortization	Year Ending December 31,	Net Deferral Amortization
2016	\$ 14,801	2016	\$ -
2017	14,801	2017	-
2018	7,548	2018	-
	<u>\$ 37,150</u>		<u>\$ -</u>



<b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
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The District's contributions subsequent to the measurement date of \$24,568 will be recognized as a reduction of the net pension liability in the year ending December 31, 2016.

In 2014, \$51,194 was recognized as a deferred inflow of resources, and was amortized over a closed five year period at an annual amortization amount of \$10,239. There was additional deferred inflows of \$55,541 recognized in 2015. The annual amortization of \$26,063 was recognized in 2015 as a reduction in pension expense as follows:

**Deferred Inflows of Resources**

3.51 Years Amortization Period	Amount Deferred	Amount Amortized	Net Deferral Balance
Recognized in previous years	40,955	10,239	30,716
Recognized in current year			
Changes in proportion share	55,541	15,824	39,717
Subtotal	<u>96,496</u>	<u>26,063</u>	<u>70,433</u>
	<u>\$ 96,496</u>	<u>\$ 26,063</u>	<u>\$ 70,433</u>

Future amortization of will be recognized in pension expense as follows:

Year Ending December 31,	Net Deferral
2016	\$ 26,063
2017	26,063
2018	18,307
	<u>\$ 70,433</u>

**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:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.50%, net of plan expense, including inflation.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back 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.

**PENDLETON COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2015 and 2014**

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term 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 nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return	10%	3.50%
Real estate	5%	4.50%
Absolute return	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	100%	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the District's Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	Discount Rate	Proportionate Share of Net Pension Liability
1% decrease	6.50%	\$ 657,706
Current discount rate	7.50%	515,191
1% increase	8.50%	393,140

<p><b>PENDLETON COUNTY WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b></p>
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**Plan Fiduciary Net Position**

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

**NOTE 10 – ECONOMIC DEPENDENCY/CREDIT RISK**

Pendleton County Water District is a government agency operating with one office in Falmouth, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Pendleton, Campbell, and Grant Counties in Kentucky.

**NOTE 11 – CONCENTRATIONS**

The District has agreements to purchase water from the City of Falmouth, Kentucky and the Northern Kentucky Water District through the year 2047. In June 2001, the District signed an agreement to purchase water on an "as needed" basis from the City of Williamstown, Kentucky. This contract is in force until June 2021.

**NOTE 12 – RESTATEMENT OF PRIOR YEAR STATEMENTS**

The District has recorded an adjustment to the Beginning Net Position of (\$488,654) at December 31, 2014. This adjustment accounts for the estimated net pension liability at June 30, 2014, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

**NOTE 13 – SUBSEQUENT EVENTS**

Management has evaluated events through March 24, 2016, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2015 through March 24, 2016 to disclose.

**PENDLETON COUNTY WATER DISTRICT  
 MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN  
 Last Ten Fiscal Years**

**Schedule of the District's Proportionate Share of the Net Pension Liability  
 County Employees' Retirement System (CERS)**

(New disclosure in 2015, will display additional years as time progresses)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Proportion of net pension liability	0.011980%									
Proportionate share of the net pension liability (asset)	\$ 515,191									
Covered employee payroll in year of measurement	274,414									
Share of the net pension liability (asset) as a percentage of its covered employee payroll	187.74%									
Plan fiduciary net position as a percentage of total pension liability	65.96%									

**Schedule of the District's Contributions  
 County Employees' Retirement System (CERS)**

(New disclosure in 2015, will display additional years as time progresses)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 47,610	\$ 58,056								
Actual contribution	47,610	58,056								
Contribution deficiency (excess)	-	-								
Covered employee payroll	274,414	317,238								
Contributions as a percentage of covered employee payroll	17.35%	18.30%								

**Notes to Required Supplementary Information  
 for the Year Ended June 30, 2015**

**Changes to the Elements of Pension Expense**

The net pension liability as of December 31, 2015, is based on the June 30, 2015, actuarial valuation for the first year of implementation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District contributions and proportionate share of contributions are detailed in NOTE 9 in the Notes to the Financial Statements.

<b>PENDLETON COUNTY WATER DISTRICT</b> <b>SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES</b> <b>For the Years Ending December 31, 2015 and 2014</b>
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	<u>2015</u>	<u>2014</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 266,126	\$ 304,451
Employee pension and benefits	97,525	112,225
Advertising	1,174	1,085
Bad debt expense	3,198	7,140
Commissioners' fees	24,000	24,000
Contractual services - accounting	21,040	20,260
Contractual services - other	25,251	21,871
Insurance - general and vehicle	20,017	19,233
Insurance - other	573	941
Insurance - workers' compensation	5,782	5,876
Maintenance	24,580	34,599
Materials and supplies	19,490	21,856
Miscellaneous	1,858	5,382
Purchased power	17,712	18,447
Regulatory commission	2,605	2,789
Rental of equipment	2,392	2,291
Taxes	21,326	25,402
Transportation	12,741	22,004
Utilities	16,841	16,663
	<u>584,231</u>	<u>666,515</u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 584,231</u>	<u>\$ 666,515</u>



Van Gorder, Walker & Co., Inc.  
Certified Public Accountants

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**Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

**To the Board of Commissioners  
Pendleton County Water District**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Pendleton County Water District as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements which collectively comprise Pendleton County Water District's basic financial statements and have issued our report thereon dated March 24, 2016.

**Internal Control over Financial Reporting**

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



### **Lack of Segregation of Duties**

**Condition:** We noted that due to the size of the District and financial considerations, some of the executing and recording of transactions are performed by the same person.

**Criteria:** Segregation of duties is a necessary part of any system of internal control. Segregating the processes of authorizing, executing and recording transactions is essential.

**Effect:** Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account. The District has determined that the cost of mitigation is not justified when compared to the risk of the related transactions.

**Recommendation:** Due to the size of the District and other financial considerations, internal controls should be implemented, to the highest appropriate level, to segregate the duties of the personnel. Controls should then be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pendleton 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 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 audits, 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.

Van Gorder, Walker & Co., Inc.  
Erlanger, Kentucky  
March 24, 2016