

**WESTERN FLEMING COUNTY
WATER DISTRICT**

**AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Western Fleming County Water District, Kentucky
Ewing, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 Western Fleming County Water District, Kentucky, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2016 on our consideration of the Western Fleming County Water District, Kentucky'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 Western Fleming County Water District, Kentucky's internal control over financial reporting and compliance.

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 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 statements is not affected by this missing information.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

May 4, 2016

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND**

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

ASSETS & DEFERRED OUTFLOWS	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and Cash Equivalents-Unrestricted	\$ 857,568	\$ 637,654
Unbilled Revenue	55,328	55,328
Accounts Receivable (net of allowance for doubtful accounts of \$8,597 and \$3,081 at December 31, 2015 and 2014.)	91,638	90,967
Prepaid Insurance	10,404	10,404
Total Current Assets	<u>1,014,938</u>	<u>794,353</u>
Restricted Assets		
Cash and Cash Equivalents-Restricted	313,731	303,105
Bond Issue Costs	-	3,737
Total Restricted Assets	<u>313,731</u>	<u>306,842</u>
Noncurrent assets:		
Nondepreciable Capital Assets:		
Land	165,710	165,710
Construction in Progress	-	-
Depreciable Capital Assets:		
Property, Plant and Equipment	10,840,363	10,810,722
Less: Accumulated depreciation	(4,629,070)	(4,406,978)
Total Noncurrent Assets	<u>6,377,003</u>	<u>6,569,454</u>
Deferred Outflow of Resources	24,617	-
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 7,730,289</u>	<u>\$ 7,670,650</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts Payable	\$ 33,278	\$ 18,610
Accrued Retirement	5,746	4,493
Accrued Taxes	5,631	4,329
Accrued Interest Payable	-	-
Current Portion of Long-term Debt	159,051	153,796
Total Current Liabilities	<u>203,706</u>	<u>181,228</u>
Noncurrent Liabilities:		
Notes Payable, Net of Current Portion	3,420,703	3,579,754
TOTAL LIABILITIES	<u>3,624,409</u>	<u>3,760,982</u>
Deferred Inflow of Resources	265,000	-
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	3,889,409	3,760,982
NET POSITION		
Net Investment in Capital Assets	2,797,249	2,835,904
Restricted for:		
Debt Service	28,087	28,536
Capital Projects and Replacement	204,338	223,605
Unrestricted	811,204	821,622
TOTAL NET POSITION	<u>\$ 3,840,881</u>	<u>\$ 3,909,669</u>

See accompanying notes to the financial statements.

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
OPERATING REVENUES:		
Water Operating Revenues	\$ 1,166,906	\$ 979,211
TOTAL OPERATING REVENUES	1,166,906	979,211
OPERATING EXPENSES:		
Chemicals	114,679	85,517
Contract Service - Accounting	6,000	6,500
Contract Service - Legal	1,925	2,100
Contract Service - Other	29,610	30,680
Water Testing	11,153	15,587
Insurance	20,090	19,883
Health Insurance	40,304	36,086
Materials and Supplies	30,533	24,528
Office Supplies	17,181	15,522
Telephone & Utilities	4,610	5,207
Miscellaneous	2,658	4,476
Payroll Taxes	13,007	14,012
Purchased Power	109,095	131,592
Purchased Water	74,567	76,074
Retirement	19,000	26,740
Service Fees	5,562	3,836
Bad Debt Expense	5,516	-
Penalties	-	3,500
Depreciation	222,092	242,764
Amortization	-	933
Salaries - Commissioners	9,062	12,200
Salaries - Employees	175,108	186,166
TOTAL OPERATING EXPENSES	911,753	943,903
OPERATING INCOME (LOSS)	255,153	35,308
NONOPERATING REVENUES:		
Customer Tap Fees	10,400	13,200
Gain(Loss) Sale of Assets	-	-
DOT project flow through income	(41,740)	-
DOT project flow through expense	41,740	-
Interest Income	3,264	108
Interest Expense	(87,882)	(86,759)
TOTAL NONOPERATING REVENUES	(74,218)	(73,451)
Net Income Before Capital Contribution	180,949	(38,143)
Capital Contribution	-	-
CHANGE IN NET POSITION	180,949	(38,143)
NET POSITION - Beginning of year	3,909,669	3,947,813
Prior Period Adj GASB 65 Bond issue costs	(3,737)	-
Prior Period Adj GASB 68 Pension Liabilities	(246,000)	-
NET POSITION - End of year	\$ 3,840,881	\$ 3,909,669

See accompanying notes to the financial statements.

**WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	1,166,906	979,211
Cash Payments to Suppliers for Goods and Services	(441,917)	(481,452)
Cash Payments for Salaries and Benefits	(247,419)	(263,005)
Other Receipts (Payments)	-	-
Net Cash Provided (Used) by Operating Activities	477,570	234,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	3,264	108
Net Cash Provided (Used) by Investing Activities	3,264	108
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	-	-
Principal Paid on Capital Debt	(153,796)	(149,049)
Purchases of Capital Assets	(29,641)	(33,799)
State Grants Received	-	-
Contributed Capital - Tap Fees	10,400	13,200
Interest Paid on Capital Debt	(87,882)	(86,759)
Net Cash Provided (Used) by Financing Activities	(260,918)	(256,406)
NET INCREASE (DECREASE) IN CASH	219,915	(21,545)
Cash and Cash Equivalents - Beginning of Year	637,654	659,200
Cash and Cash Equivalents - End of Year	\$ 857,568	\$ 637,654
RECONCILIATION OF OPERATING INCOM (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	255,153	35,308
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation Expense	222,092	242,764
Amortization Expense	-	933
Change in Assets and Liabilities:		
Accounts Receivable	(671)	(25,902)
Prepaid Expense	-	-
Accounts Payable and Other Payables	(1,556)	(21,592)
Accrued Wages and Vacation	2,554	3,245
Net Cash Provided (Used) by Operating Activities	\$ 477,570	\$ 234,754

Supplemental Disclosures:

Interest paid was \$ 87,882 and \$ 78,759 in 2015 and 2014 respectively.

See accompanying notes to the financial statements.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

NOTE 1: ORGANIZATION AND ACCOUNTING POLICIES

The Western Fleming Water District was created and organized as a public body corporate in Fleming County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Fleming County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The Reporting Entity

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

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

Based on the foregoing criteria there are no other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 management focus. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

Note 1: ORGANIZATION AND ACCOUNTING POLICIES

Basis of Accounting

The District maintains its accounting records on the accrual basis during the year. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is maintained at lower of cost or market.

Utility Plant

Utility Plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

Depreciation

Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates on a straight-line basis determined by reference to Utility Standards Rates (NARUC). The provisions for depreciation in 2014 reflect those standard rates by asset class.

Unbilled Revenue

The District records revenue as billed to its customers on monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statement include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

Use of Estimates

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

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

Net Position

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does have a deposit policy for custodial credit risk. As of December 31, 2015, \$0 of the bank balance was exposed to custodial credit risk.

NOTE 3: LONG-TERM DEBT

Depreciation fund and bond reserve funds that are required by the 1969, 1988, 03 and 04 bond indentures are held as time deposits and certificates of deposit by Community Trust Bank-Ewing Branch at Ewing, Kentucky. The Depreciation Funds are sufficiently funded. The current depreciation funds currently total \$186,546 the required level is \$122,400. The amount they are over funded by is \$64,146. The depreciation fund required by the 1988 bond indenture requires that a deposit of \$170 be deposited monthly. As of December 31, 2015, the 1988 depreciation reserve fund had a balance of \$78,517. The 2004 bond indenture requires a bond reserve fund be set-up with the Regions bank. This account is set-up and had a balance of \$28,087 as of December 31, 2015. The new KIA loan for \$2,066,437 requires a R&M Reserve of \$6,500 per year until the account reaches \$65,000. The account should have \$32,500 in it as of December 31, 2015. This account has \$32,500. This account is properly funded.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2015 and 2014

Note: LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance
1980 Bond	\$ 174,000	\$ -	\$ 24,000	\$ 150,000
1988 Bond	200,000	-	10,000	190,000
1997 Bond	528,500	-	13,500	515,000
2002 Bond	436,500	-	8,000	428,500
2004 Bond	122,000	-	23,000	99,000
2010 KIA Loan, \$2,066,437 Loan #F08-01 Interest 1% payable semi-annually	2,272,550	-	75,296	2,197,254
	<u>3,733,550</u>	-	<u>153,796</u>	<u>3,579,754</u>
Less: Current Maturities	<u>153,796</u>			<u>159,051</u>
Totals	<u>\$ 3,579,754</u>			<u>\$ 3,420,703</u>

The following is a schedule of long-term debt maturities:

	Principal	Interest
2016	159,051	69,042
2017	161,016	65,412
2018	167,083	61,672
2019	174,861	57,712
2020	158,146	54,151
2021-2025	637,794	229,661
2026-2030	674,649	163,231
2031-2035	690,070	104,253
2036-2040	654,613	42,825
2041-2045	102,471	2,703
	<u>\$ 3,579,754</u>	<u>\$ 850,662</u>

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

NOTE 4: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2015 was as follows:

Business-Type Activities	Balance Jan 1, 2015	Additions	Deductions	Balance Dec 31, 2015
Cost:				
Land	\$ 165,710			\$ 165,710
Plant in Service	10,628,634	29,641		10,658,275
Other Depreciable Assets	182,089	-		182,089
Construction in Progress	-			-
Totals at historical cost	10,976,432	29,641	-	11,006,073
Less accumulated depreciation:				
Depreciation	4,406,977	222,092		4,629,069
Total accumulated depreciation	4,406,977	222,092	-	4,629,069
Business-Type Activities Capital Assets - Net	\$ 6,569,454	\$ (192,451)	\$ -	\$ 6,377,004

Capital asset activity for the fiscal year ended December 31, 2014 was as follows:

Business-Type Activities	Balance Jan 1, 2014	Additions	Deductions	Balance Dec 31, 2014
Cost:				
Land	\$ 165,710	\$ -	\$ -	\$ 165,710
Plant in Service	10,604,499	24,135	-	10,628,634
Other Depreciable Assets	172,424	9,665	-	182,089
Construction in Progress	-	-	-	-
Totals at historical cost	10,942,632	33,800	-	10,976,432
Less accumulated depreciation:				
Depreciation	4,164,213	242,764		4,406,977
Total accumulated depreciation	4,164,213	242,764	-	4,406,977
Business-Type Activities Capital Assets - Net	\$ 6,778,419	\$ (208,965)	\$ -	\$ 6,569,454

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

NOTE 6: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description- Regular, Full-time, employees of the Commission are provided with pensions through the County Employees Retirement System (CERS)- a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administrators, KERS & SPRS. Although invested as a whole each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefits terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky retirement System issues a publicly available financial report that can be obtained on their website.

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

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

Contributions- Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The Library's contractually required contribution rate for the year ended December 31, 2015 was 17.06% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to pension plan from the District were \$24,795 for the year ended December 31, 2015.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

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

At December 31, 2015, The District reported a liability of \$238,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's portion of the net pension liability was based on the District's proportionate share of retirement contributions for the calendar year ended December 31, 2015. At June 30, 2014 the District's proportionate share was 0.014%.

For the year ended December 31, 2015 the District recognized pension expense of \$19,000. At December 31, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual		
Earnings on pension plan investments	\$ -0-	\$ 27,000
District's contributions subsequent		
To the measure date	<u>24,617</u>	<u>-0-</u>
Total	\$ 24,617	\$ 27,000

\$24,617 reported as deferred outflows of resources related to pension resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2016	\$ (4,800)
December 31, 2017	(4,800)
December 31, 2018	(4,800)
December 31, 2019	(4,800)
December 31, 2020	(4,800)
Thereafter	<u>-0-</u>
Total	\$ (27,000)

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

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

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

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005-June 30, 2008.

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008 is outlined in a report dated August 25, 2009. Several factors are considered evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return and net of investment expense) were developed by the invest consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation a change in the inflation assumption or fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Unexpected Nominal Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
	<u>100%</u>	

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

Discount Rate- The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease	Current	1% Discount Rate
Increase			
	<u>6.75%</u>	<u>7.75%</u>	<u>8.75%</u>
Center's Proportionate Share of the net pension liability	\$207,290	\$238,000	\$268,710

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

KENTUCKY EMPLOYEES DEFERRED COMPENSATION PLAN

Kentucky Public Employees' Deferred Compensation Authority (KDC) is authorized under the Kentucky Revised Statutes (18A.230-18A.275) to provide administration of tax-deferred supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate. It is an agency attached to the Personnel Cabinet of the Commonwealth of Kentucky for administrative purposes only.

A 457(b) pre-tax plan is a governmental deferred compensation plan that allows participants to make tax-deferred contributions each pay period, which are then invested and potentially grow usually until retirement. The Kentucky Public Employees' Deferred Compensation Authority (KDC) 457(b) Deferred Compensation Plan allows State employees to get the same benefit through a program that is specifically tailored to the needs of Kentucky public employees. A minimum monthly payroll contribution of \$30 per plan is required. The internal Revenue Service's maximum elective deferrals for 2015 is \$18,000 for those under age 50, \$18,000 age 50 and up, and \$36,000 for special catch-up contributions. You can learn more about the plan by visiting the Kentucky Deferred Comp website at www.KentuckyPlans.com.

Employee contributions to the plan for the year were \$7,152.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

NOTE 5: CUSTOMERS

The amount of non-residential customers as of December 31, 2015 was 21. The number of residential customers as of December 31, 2015 was 1,462. The total was 1,483.

NOTE 6: RISK MANAGEMENT

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

NOTE 7: CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

NOTE 8: PRIOR PERIOD ADJUSTMENTS (2)

The District made a prior period adjustment for GASB 68 Pension Liabilities – (\$246,000). The District also made a prior period adjustment for GASB 65 Bond Issue Costs – (\$3,737).

SUPPLEMENTAL INFORMATION

**WESTERN FLEMING COUNTY WATER DISTRICT
 SUPPLEMENTARY INFORMATION REQUIRED BY RURAL DEVELOPMENT
 December 31, 2015**

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$3,000,000	7-1-16
Property-Building & Contents	\$4,217,856	7-1-16
Equipment & Vehicles	\$24,800	9-11-16
Treasurer and Commissioners	\$150,000	5-13-16
Workers Compensation	Statutory	7-1-16

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

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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
Western Fleming County Water District, Kentucky
Ewing, KY

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 Western Fleming 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 Western Fleming County Water District, Kentucky's basic financial statements and have issued our report thereon dated May 4, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Fleming County Water District, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

May 4, 2016

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

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Board of Commissioners
Western Fleming County Water District
Ewing, Kentucky

In planning and performing my audit of the basic financial statements of Western Fleming County Water District for the year ended December 31, 2015, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for increasing operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated May 4, 2016, on the financial statements of the Western Fleming County Water District.

I will review the status of these comments and suggestions with various District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Donna J. Hendrix, CPA

DONNA J. HENDRIX, CPA

Morehead, Kentucky

May 4, 2016

WESTERN FLEMING COUNTY WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2015

Status of Prior Year Management Points

2014-1 Lack of Segregation of Duties

Due to the small size of the District, this is challenging. The District is still struggling in this area.

Current Year Management Points

2015-1 Lack of Segregation of Duties (Repeat of 2014-1 from prior year)
Condition: Due to the small size of the District there is a lack of segregation of duties. The office manager performs and manages all of the accounting transactions. While the work performed by the office manager is sufficient, there remains the overall problem of lack of segregation of duties.

Recommendation: The Board of Commissioners should provide more oversight.

Response: The Board will take steps to insure that separation of duties, where possible, is maximized.