

**WESTERN FLEMING COUNTY
WATER DISTRICT**

**AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Western Fleming Water District, Kentucky as of and for the year ended December 31, 2016, 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 governmental activities of the Western Fleming Water District, Kentucky, as of December 31, 2016, and the respective changes in financial position,

and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

The schedule of the District's proportionate share of net pension liability and schedule of District contributions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of the District's proportionate share of net pension liability and schedule of District contributions are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2017, on our consideration of the Western Fleming 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 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 appropriated 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 22, 2017

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

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

ASSETS & DEFERRED OUTFLOWS	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and Cash Equivalents-Unrestricted	\$ 756,976	\$ 857,568
Unbilled Revenue	52,065	55,328
Accounts Receivable (net of allowance for doubtful accounts of \$8,597 and \$3,081 at December 31, 2015 and 2014.)	99,155	91,638
Prepaid Insurance	<u>10,404</u>	<u>10,404</u>
Total Current Assets	<u>918,600</u>	<u>1,014,938</u>
Restricted Assets		
Cash and Cash Equivalents-Restricted	325,080	313,731
Bond Issue Costs	<u>-</u>	<u>-</u>
Total Restricted Assets	<u>325,080</u>	<u>313,731</u>
Noncurrent assets:		
Nondepreciable Capital Assets:		
Land	165,710	165,710
Construction in Progress	102,533	-
Depreciable Capital Assets:		
Property, Plant and Equipment	10,976,517	10,840,363
Less: Accumulated depreciation	<u>(4,861,232)</u>	<u>(4,629,070)</u>
Total Noncurrent Assets	<u>6,383,527</u>	<u>6,377,003</u>
Deferred Outflow of Resources	<u>57,722</u>	<u>24,617</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 7,684,930</u>	<u>\$ 7,730,290</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts Payable	\$ 40,258	\$ 33,278
Accrued Retirement	3,619	5,746
Accrued Taxes	6,851	5,631
Accrued Interest Payable	-	-
Current Portion of Long-term Debt	<u>161,016</u>	<u>159,051</u>
Total Current Liabilities	<u>211,744</u>	<u>203,706</u>
Noncurrent Liabilities:		
Accrued Pension & OPED	230,489	238,000
Notes Payable, Net of Current Portion	<u>3,259,688</u>	<u>3,420,703</u>
TOTAL LIABILITIES	<u>3,701,920</u>	<u>3,862,409</u>
Deferred Inflow of Resources	<u>50,586</u>	<u>27,000</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>3,752,506</u>	<u>3,889,409</u>
NET POSITION		
Net Investment in Capital Assets	2,860,291	2,797,249
Restricted for:		
Debt Service	27,627	28,087
Capital Projects and Replacement	207,888	204,338
Unrestricted	<u>836,615</u>	<u>811,204</u>
TOTAL NET POSITION	<u>\$ 3,932,423</u>	<u>\$ 3,840,881</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, 2016 AND 2015**

	2016	2015
OPERATING REVENUES:		
Water Operating Revenues	\$ 1,154,333	\$ 1,166,906
TOTAL OPERATING REVENUES	1,154,333	1,166,906
OPERATING EXPENSES:		
Chemicals	115,089	114,679
Contract Service - Accounting	10,250	6,000
Contract Service - Legal	10,261	1,925
Contract Service - Other	28,367	29,610
Water Testing	13,381	11,153
Insurance	22,370	20,090
Health Insurance	43,594	40,304
Materials and Supplies	49,578	30,533
Office Supplies	10,969	17,181
Telephone & Utilities	4,385	4,610
Miscellaneous	4,845	2,658
Payroll Taxes	18,054	13,007
Purchased Power	97,879	109,095
Purchased Water	82,751	74,567
Retirement	16,075	19,000
Service Fees	7,445	5,562
Bad Debt Expense	1,434	5,516
Penalties	-	-
Depreciation	232,162	222,092
Amortization	-	-
Salaries - Commissioners	24,000	9,062
Salaries - Employees	198,472	175,108
TOTAL OPERATING EXPENSES	991,362	911,753
OPERATING INCOME (LOSS)	162,971	255,153
NONOPERATING REVENUES:		
Customer Tap Fees	12,650	10,400
Gain(Loss) Sale of Assets	-	-
DOT project flow through income	-	(41,740)
DOT project flow through expense	-	41,740
Interest Income	3,190	3,264
Interest Expense	(87,283)	(87,882)
TOTAL NONOPERATING REVENUES	(71,443)	(74,218)
Net Income Before Capital Contribution	91,543	180,949
Capital Contribution	-	-
CHANGE IN NET POSITION	91,543	180,949
NET POSITION - Beginning of year	3,840,881	3,909,669
Prior Period Adj GASB 65 Bond issue costs	-	(3,737)
Prior Period Adj GASB 68 Pension Liabilities	-	(246,000)
NET POSITION - End of year	\$ 3,932,423	\$ 3,840,881

See accompanying notes to the financial statements.

WESTERN FLEMING COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	1,154,333	1,166,906
Cash Payments to Suppliers for Goods and Services	(509,550)	(441,917)
Cash Payments for Salaries and Benefits	(276,195)	(247,419)
Other Receipts (Payments)	-	-
Net Cash Provided (Used) by Operating Activities	368,589	477,570
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	3,190	3,264
Net Cash Provided (Used) by Investing Activities	3,190	3,264
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	-	-
Principal Paid on Capital Debt	(159,050)	(153,796)
Purchases of Capital Assets	(238,686)	(29,641)
State Grants Received	-	-
Contributed Capital - Tap Fees	12,650	10,400
Interest Paid on Capital Debt	(87,283)	(87,882)
Net Cash Provided (Used) by Financing Activities	(472,370)	(260,918)
NET INCREASE (DECREASE) IN CASH	(100,591)	219,915
Cash and Cash Equivalents - Beginning of Year	857,568	637,654
Cash and Cash Equivalents - End of Year	\$ 756,976	\$ 857,568
RECONCILIATION OF OPERATING INCOM (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	162,971	255,153
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation Expense	232,162	222,092
Amortization Expense	-	-
Change in Assets and Liabilities:		
Accounts Receivable	(4,254)	(671)
Prepaid Expense	-	-
Accounts Payable and Other Payables	(21,381)	(1,556)
Accrued Wages and Vacation	(907)	2,554
Net Cash Provided (Used) by Operating Activities	\$ 368,589	\$ 477,570

Supplemental Disclosures:

Interest paid was \$ 87,283 and \$ 87,882 in 2016 and 2015 respectively.

See accompanying notes to the financial statements.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015

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, 2016, \$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 \$191,522 the required level is \$122,400. The amount they are over funded by is \$69,122. The depreciation fund required by the 1988 bond indenture requires that a deposit of \$170 be deposited monthly. As of December 31, 2016, the 1988 depreciation reserve fund had a balance of \$79,951. 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 \$27,627 as of December 31, 2016. 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 \$39,000 in it as of December 31, 2016. This account has \$32,680. This account is underfunded by \$6,320 at December 31, 2016.

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2016 and 2015

Note: LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance
1980 Bond	\$ 150,000	\$ -	\$ 26,000	\$ 124,000
1988 Bond	190,000	-	11,000	179,000
1997 Bond	515,000	-	14,500	500,500
2002 Bond	428,500	-	8,500	420,000
2004 Bond	99,000	-	23,000	76,000
2010 KIA Loan, \$2,066,437 Loan #F08-01 Interest 1% payable semi-annually	2,197,254	-	76,051	2,121,203
	<u>3,579,754</u>	-	<u>159,051</u>	<u>3,420,703</u>
Less: Current Maturities	<u>159,051</u>			<u>161,016</u>
Totals	<u>\$ 3,420,703</u>			<u>\$ 3,259,687</u>

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

	Principal	Interest
2017	161,016	65,412
2018	167,083	61,672
2019	174,861	57,712
2020	158,146	54,151
2021	121,940	50,864
2022-2026	651,882	216,883
2027-2031	670,946	150,651
2032-2036	705,587	92,243
2037-2041	581,242	31,405
2042-2046	28,000	627
	<u>\$ 3,420,703</u>	<u>\$ 781,620</u>

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

NOTE 4: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2016 was as follows:

Business-Type Activities	Balance Jan 1, 2016	Additions	Deductions	Balance Dec 31, 2016
Cost:				
Land	\$ 165,710			\$ 165,710
Plant in Service	10,658,275	136,154		10,794,429
Other Depreciable Assets	182,089	-		182,089
Construction in Progress	-			-
Totals at historical cost	<u>11,006,073</u>	<u>136,154</u>	<u>-</u>	<u>11,142,227</u>
Less accumulated depreciation:				
Depreciation	4,629,069	232,162		4,861,231
Total accumulated depreciation	<u>4,629,069</u>	<u>232,162</u>	<u>-</u>	<u>4,861,231</u>
Business-Type Activities Capital Assets - Net	<u>\$ 6,377,003</u>	<u>\$ (96,008)</u>	<u>\$ -</u>	<u>\$ 6,280,994</u>

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	<u>10,976,432</u>	<u>29,641</u>	<u>-</u>	<u>11,006,073</u>
Less accumulated depreciation:				
Depreciation	4,406,977	222,092		4,629,069
Total accumulated depreciation	<u>4,406,977</u>	<u>222,092</u>	<u>-</u>	<u>4,629,069</u>
Business-Type Activities Capital Assets - Net	<u>\$ 6,569,454</u>	<u>\$ (192,451)</u>	<u>\$ -</u>	<u>\$ 6,377,004</u>

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

NOTE 5: DEFINED BENEFIT PENSION PLAN

Plan description: Substantially all full-time classified employees of the Water District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502)564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Fund for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 17.06% of the members salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions: At June 30, 2016 the Water District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2015 was determined using standard roll-forward techniques. The Water District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2015. At June 30, 2015, the Water District's proportion was 0.005361%.

For the year ended June 30, 2016, the Water District recognized pension expense of \$5,778. At June 30, 2016, the Water District reported deferred outflows of resources for City contributions subsequent to the measurement date of \$57,722. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

The Water District reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$27,000. These amounts will be recognized in pension expense as follows:

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

NOTE 5 – PENSION PLAN (Continued)

<u>Year</u>	
2016	\$5,400
2017	5,400
2018	5,400
2019	5,400
2020	<u>5,400</u>
	\$27,000

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25 percent
Salary Increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment 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 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. 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

WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

NOTE 5 – PENSION PLAN (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44.0%	5.40%
Combined Fixed Income Real Return (Diversified Inflation Strategies)	19.0%	1.50%
Real Estate	10.0%	3.50%
Absolute Return (Diversified Hedge Funds)	5.0%	4.50%
Private Equity	10.0%	4.25%
Cash Equivalent	10.0%	8.50%
	2.0%	-0.25%
Total	100.0%	

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 local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

NOTE 5 – PENSION PLAN (Continued)

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

WESTERN FLEMING COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2016 and 2015

NOTE 5 – PENSION PLAN (Continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	293,250	230,000	176,180

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

NOTE 6: CUSTOMERS

The amount of non-residential customers as of December 31, 2016 was 21. The number of residential customers as of December 31, 2016 was 1,462. The total was 1,483.

NOTE 7: 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 8: 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 9: SUBSEQUENT EVENTS

There were no subsequent events to report as of May 22, 2017.

SUPPLEMENTAL INFORMATION

**WESTERN FLEMING COUNTY WATER DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2016**

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	7-1-17
Property-Building & Contents	\$4,217,856	7-1-17
Equipment & Vehicles	\$24,800	9-11-17
Treasurer and Commissioners	\$150,000	5-13-17
Workers Compensation	Statutory	7-1-17

WESTERN FLEMING COUNTY WATER DISTRICT
 SCHEDULE OF WATER DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
District's proportion of the net pension liability	0.00536%	0.00732%
District's proportionate share of the net pension liability	\$ 230,489	\$ 238,000
District's covered employee payroll	\$ 184,205	\$ 169,801
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	125.126%	140.164%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	66.80%

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

WESTERN FLEMING COUNTY WATER DISTRICT
 SCHEDULE OF PENSION CONTRIBUTIONS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2015</u>	<u>2014</u>
Contractually required contribution:	\$ 15,279	\$ 31,732
Contributions in relation to the contractually required contribution:	<u>15,279</u>	<u>31,732</u>
Contribution deficiency (excess):	-	-
District's covered-employee payroll:	184,205	169,801
District's proportionate share of the pension contributions as a percentage of its covered-employee payroll:	8.29%	18.69%

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

**WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2016**

(1) CHANGES OF ASSUMPTIONS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of December 31 listed below:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

**WESTERN FLEMING COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016 (Continued)**

(3) CHANGES OF BENEFITS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

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

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Western Fleming County Water District District as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Western Fleming County Water District District, Kentucky's basic financial statements and have issued our report thereon dated May 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Fleming County Water District 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 District, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Western Fleming County Water District 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 22, 2017

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, 2016, 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 22, 2017, 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 22, 2017

WESTERN FLEMING COUNTY WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2016

Status of Prior Year Management Points

2015-1 Lack of Segregation of Duties-This issue has been resolved.

Current Year Management Points

2016-1 Approval of monthly bank statements
Condition: A member of the Board of Commissioners is not reviewing and signing off on the monthly bank statement.

Recommendation: A member of the Board of Commissioners should review and sign off on each monthly bank statement.

Response: The Board will implement immediately.

2016-2 Loan Reserve account underfunded by \$6,321.
Condition: The loan agreements with KIA requires \$6,500 per year be set aside into a separate cash account for repairs. The District has established the separate account; however, the account is underfunded by \$6,321

Recommendation: The District must resume the proper funding as required.

Response: The Board will resume payments immediately.