

**MORGAN COUNTY WATER DISTRICT**

**AUDIT OF FINANCIAL STATEMENTS**

**For The Years Ended December 31, 2015 and 2014**

DRAFT

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## **Independent Auditors' Report**

To the Board of Directors  
Morgan County Water District  
West Liberty, Kentucky

### **Report on the Financial Statements**

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion 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 auditors' 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 auditors consider 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

To the Board of Directors  
Morgan County Water District  
West Liberty, Kentucky

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 opinion.

### ***Opinion***

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 Morgan 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.

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

As described in Note L to the financial statements, in 2015, Morgan County Water District adopted the new accounting guidance, GASB Statement 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of the Districts' Contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2016, on our consideration of the 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 the District's internal control over financial reporting and compliance.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

April 26, 2016

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**MORGAN COUNTY WATER DISTRICT  
STATEMENTS OF NET POSITION  
December 31, 2015 and 2014**

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash - Unrestricted	\$ 22,267	\$ 24,919
Cash - Restricted	169,136	165,604
Accounts Receivable	87,951	87,951
Unbilled Receivables	49,569	49,569
Allowance for Doubtful Accts.	(8,011)	(8,011)
Prepaid Insurance	7,412	7,412
Total Current Assets	328,324	327,444
<b>NONCURRENT ASSETS</b>		
Prepaid Capital Lease (Net of Accumulated Amortization of \$17,104 and \$12,828)	406,259	410,535
Cash - Restricted	50,567	107,928
Total Noncurrent Assets	456,826	518,463
<b>PROPERTY AND EQUIPMENT</b>		
Construction in Progress		1,558,691
Water Lines	21,795,865	20,172,162
Accum. Depr. Water Lines	(4,415,126)	(4,000,377)
Office Equipment	1,099	1,099
Accum. Depr. Office Equipment	(1,099)	(1,099)
Equipment and Vehicles	457,603	472,403
Accum. Depr. Equipment and Vehicles	(333,595)	(321,357)
Land	66,176	75,200
Total Property and Equipment	17,570,923	17,956,722
<b>TOTAL ASSETS</b>	<b>18,356,073</b>	<b>18,802,629</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Liabilities	28,251	

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

**MORGAN COUNTY WATER DISTRICT  
STATEMENTS OF NET POSITION  
December 31, 2015 and 2014**

	2015	2014
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accrued Interest	\$ 92,524	\$ 97,986
Accrued Expenses	73,971	57,079
Accrued Salaries	3,000	3,000
Accounts Payable-Construction	14,939	110,823
Accounts Payable-Retirement	2,842	2,842
Bonds Payable	76,850	71,440
Total Current Liabilities	264,126	343,170
<b>LONG-TERM LIABILITIES</b>		
Compensated Absences	10,953	10,953
Net Pension Liability	218,000	
Bonds Payable	3,763,870	3,840,720
	3,992,823	3,851,673
<b>OTHER LIABILITIES</b>		
Customer Deposits	17,149	19,645
<b>TOTAL LIABILITIES</b>	4,274,098	4,214,488
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	24,000	
<b>NET POSITION:</b>		
Invested in Capital Assets, Net of Related Debt	14,136,462	14,344,274
Restricted for Debt Service	169,136	165,604
Restricted for Depreciation Reserve	29,228	84,190
Restricted for Construction	752	645
Unrestricted	(249,352)	(6,572)
<b>TOTAL NET POSITION</b>	14,086,226	14,588,141
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 18,384,324	\$ 18,802,629

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

**MORGAN COUNTY WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION  
For The Years Ended December 31, 2015 and 2014**

	2015	2014
<b>OPERATING REVENUES</b>		
Water Collection	\$ 1,222,203	\$ 1,150,949
Sales Tax	(1,689)	(1,639)
Utility And Local Tax	(34,031)	(32,625)
State Reimb. Relocation Projects	228,396	196,956
Tap-On Fees	32,589	37,578
Miscellaneous	19,567	29,795
 Net Operating Revenues	 1,467,035	 1,381,014
 <b>OPERATING EXPENSES</b>		
Advertising	50	736
Bank Charges	382	388
Depreciation	441,786	436,533
Fuel	10,608	16,379
Insurance	55,680	51,185
Miscellaneous	5,082	5,160
Office Supplies	5,027	4,022
Outside Services	47,074	22,985
Payroll Taxes	11,827	12,328
Postage	12,586	12,234
Relocation Project Expenses	231,038	196,956
Repairs & Maintenance	5,053	5,331
Retirement	17,000	31,008
Salaries	161,037	166,679
Supplies & Testing	43,425	79,937
Travel	774	819
Uniforms	1,392	1,999
Unemployment Insurance	326	436
Utilities and Telephone	39,290	35,996
Water Purchased	679,447	557,322
Worker's Compensation	4,724	4,771
 Total Operating Expenses	 1,773,608	 1,643,204
 NET OPERATING INCOME	 (306,573)	 (262,190)

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



**MORGAN COUNTY WATER DISTRICT  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES  
 IN FUND NET POSITION  
 For The Years Ended December 31, 2015 and 2014**

	2015	2014
NON OPERATING REVENUES (EXPENSES)		
Interest and Amortization Expense	(162,257)	(170,704)
Interest Income	153	347
Gain on Sale of Land	15,826	
Grant Proceeds	175,936	1,399,014
	29,658	1,228,657
Total Non Operating Revenues (Expenses)		
Change in Net Position	(276,915)	966,467
Total Net Position - Beginning (2015 Restated)	14,363,141	13,621,674
Total Net Position - Ending	\$ 14,086,226	\$ 14,588,141

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

**MORGAN COUNTY WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended December 31, 2015 and 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments from Customers	\$ 1,272,250	\$ 1,203,227
State Reimb. Relocation Projects	228,396	196,956
Miscellaneous Income	2,109	3,526
Payments to Vendors	(1,101,772)	(985,171)
Payments for Payroll and Related Expenses	(245,190)	(250,817)
Net Cash Provided/(Used) by Operating Activities:	155,793	167,721
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Net (Deposits)/Withdrawals Customer Deposit Account	2,505	(1,240)
Net Cash Provided/(Used) by Noncapital Financing Activities	2,505	(1,240)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Interest and Amortization	(163,443)	(166,427)
Net (Deposits)/Withdrawals into or from Bond Sinking Fund	(3,532)	(244)
Net (Deposits)/Withdrawals into or from Dep. Reserve Fund	54,963	68,677
Net (Deposits)/Withdrawals into or from Cash - Construction	(105)	(65)
Net Customer Deposits (Returned)/Collected	(2,496)	1,216
Grant Proceeds	175,936	1,399,014
Constructed Fixed Assets	(175,836)	(1,398,635)
Sale of Assets	24,850	
Reduction in Bonds Payable	(71,440)	(69,260)
Net Cash Provided/(Used) by Capital and Related Financing Activities	(161,103)	(165,724)

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

**MORGAN COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2015 and 2014**

	2015	2014
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash Received from Interest	153	347
Net Cash Provided/(Used) by Investing Activities	153	347
<b>INCREASE/(DECREASE) IN CASH</b>	(2,652)	1,104
<b>CASH AT BEGINNING OF YEAR</b>	24,919	23,815
<b>CASH AT END OF YEAR</b>	\$ 22,267	\$ 24,919
<b>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:</b>		
Net Operating Income	\$ (306,573)	\$ (262,190)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	441,786	436,533
Accounts Receivable		(11,568)
Accounts Payable Water Line Relcoation Projects	14,939	
Accrued Pension Liability	(11,251)	
Accrued Expenses	16,892	4,946
<b>Net Cash Provided/Used by Operating Activities</b>	\$ 155,793	\$ 167,721
 <u>Supplementary Information</u>		
	2015	2014
Total Interest Cost	\$ 157,981	\$ 166,427

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

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

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

This summary of significant accounting policies of the Morgan County Water District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Organization & Activity

The Morgan County Water District was created in accordance with Chapter 74 of the Kentucky Revised Statutes in February 1992. The purpose of the District is to provide water service to residents of Morgan County.

Financial Reporting Entity

The District complies with GASB Statements No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations Are Component Units." These Statements establish standards for defining and reporting on the financial reporting entity. They define component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not considered a component unit of any other governmental unit for financial reporting purposes.

The District considered all potential component units in determining what organizations should be included in its financial statements. Based on an evaluation of the established criteria, management determined that there were no component units to include in the District's financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements provide information about the District's business-type activities. The financial statements for the business-type activities are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe which transaction and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting," refers to when transactions or events are recorded regardless of measurement focus applied.

Because of the "businesslike" characteristics of the District's operations, the accompanying financial statements report the economic resources measurement focus and the accrual basis of accounting. The accounting objective of the "economic resources" measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District utilizes an enterprise fund to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

As the means for delivering services to its customers, the District utilizes an office building, infrastructure, office equipment, equipment and vehicles. To provide the resources that are necessary to pay for water services and the related support functions, the District charges its customers monthly user fees, which are based on the specific level of services that they are receiving. Because the operations of the District closely mirror those of a typical, commercial company, its accounting records reflect a similar approach for measuring its business activity.

The District's various bond resolutions or ordinances require the establishment of certain accounts, which are referred to as "funds." These required accounts are maintained as part of accounting records of the Water Fund. They include the Sinking Fund (Debt Service), Revenue Fund and Depreciation Reserve Fund (Repairs and Maintenance). These are not "funds" as the term is used in generally accepted accounting principles, but are separate "accounts" used to delineate the accounting and reporting for bond related money and repayment security requirements. The balances and activity that occur in these various accounts represent specific segments of the Water Utility enterprise fund as reported in the District's financial statements.

The enterprise fund used by the District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

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

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

Budgeting

The District prepares annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year. Project-length budgets, which generally encompass more than one fiscal year, are also prepared for major construction projects. Both the operating and project-length expenditure plans are prepared on the cash basis of accounting, which significantly differs from the accrual basis of accounting that the District uses in the preparation of its financial statements.

These managerial budgets that are prepared for operations each year or at the inception of a major construction project are not adopted by the Board as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 30+ days delinquent at year-end. Bills are due by the tenth of each month. It is the policy of the District to shut off water service seven days after the due date. Customer deposits held are applied to outstanding bills.

Accounts and Unbilled Receivables

Accounts receivable are stated at face amount. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on December 23, 2015 was for customer usage from approximately November 15 through December 15, 2015. The entire amount is considered accounts receivable as of December 31, 2015. The billing mailed on January 26, 2016 was for usage from approximately December 15, 2015 through January 15, 2016. Fifty percent of this billing is considered unbilled receivables at December 31, 2015.

Deposits and Investments

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

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

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

Property, Plant and Equipment

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water distribution systems, sewer collection systems and similar items) are reported as a component of noncurrent assets in the basic financial statement. Capital assets are generally defined by the District as being those assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Depreciation is charged as an expense against operations. Capital assets of the District are depreciated using the straight-line method over their estimated useful lives in years as set forth as follows.

<u>Category</u>	<u>Life in years</u>
Buildings	10-75
Equipment and Vehicles	3-25
Water Lines	10-50
Office Equipment	3-25

The depreciation expense provided on proprietary fund assets during the period ended December 31, 2015 is \$441,786.

Capitalized Interest On Indebtedness

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed. The total interest expense incurred by the District during the current fiscal year was \$157,981. Of this year's amount, \$0 was considered to be capitalized interest.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of unrestricted cash on hand, demand and savings deposits and certificates of deposit.

Inventory and Prepaid Items

The District does not maintain an inventory of supplies. Supplies are purchased as needed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

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

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

Restricted Net Position

Some of the District's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets, whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements or enabling legislation.

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "debt service" accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The "depreciation reserve" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals, replacements and extensions.

Federal Income Tax

The District is exempt from federal income tax.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B - CASH AND INVESTMENTS**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2015, these requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.



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

**NOTE C - RESTRICTIONS ON CASH**

Bond Sinking Fund

Deposits into Bond Sinking Funds are required to be made monthly in order to accumulate funds for payment of bond principle and interest. At December 31, 2015, \$169,126 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2016. The balance in this account at December 31, 2015 was \$169,136.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit \$2,500 per month into the account. The District had \$29,228 on deposit in this account for the purpose of maintaining the water system.

Restricted Cash Accounts

The District is required to maintain special deposit accounts for customer deposits, construction projects, and long-term debt obligations. The following is a listing of restricted cash accounts of the District at December 31, 2015:

Customer Deposit Accounts	\$	20,587
Bond and Interest Sinking Fund		169,136
Depreciation Reserve Fund		29,228
Construction Account		752
Total Restricted Cash Accounts	\$	219,703

**NOTE D – CAPITAL LEASES**

The District has entered into two lease agreements as lessee with the Morgan County Fiscal Court for the use of 2,500 square feet of office space at 1009 Hwy 172, West Liberty, Kentucky 41472 and 2,500 square feet of office and storage space at 150 County Garage Road, West Liberty, Kentucky 41472. The lease agreements qualify as capital leases for accounting purposes (the terms of the leases are equal to seventy-five percent or more of the estimated economic life of the leased properties). The terms of the leases are ninety-nine years. In 2012, the District prepaid \$423,364 in full payment of all future lease payments. Amortization expense for the fiscal year ended December 31, 2015 was \$4,276.

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

**NOTE E - PROPERTY, PLANT AND EQUIPMENT**

The District's property, plant and equipment consist of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Primary Government:</b>				
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 75,200	\$	\$ (9,024)	\$ 66,176
Construction In Progress	1,558,691	65,013	(1,623,704)	
Total Capital Assets Not Being Depreciated	1,633,891	65,013	(1,632,728)	66,176
Capital Assets, Being Depreciated:				
Office Equipment	1,099			1,099
Vehicles and Equipment	472,403		(14,800)	457,603
Waterlines	20,172,161	1,623,704		21,795,865
Total Capital Assets Being Depreciated	20,645,663	1,623,704	(14,800)	22,254,567
Less Accumulated Depreciation for:				
Office Equipment	(1,099)			(1,099)
Vehicles and Equipment	(321,357)	(27,038)	14,800	(333,595)
Waterlines	(4,000,378)	(414,748)		(4,415,126)
Total Accumulated Depreciation	(4,322,834)	(441,786)	14,800	(4,749,820)
Total Capital Assets, Being Depreciated, Net	16,322,829	1,181,918		17,504,747
Business-Type Activities Capital Assets, Net	<u>\$ 17,956,720</u>	<u>\$ 1,246,931</u>	<u>\$ (1,632,728)</u>	<u>\$ 17,570,923</u>

**NOTE F - BONDS PAYABLE**

The following is a summary of the long-term debt transactions of the Morgan County Water District for the year ended December 31, 2015

<u>Water Utility Fund Revenue Bonds</u>	<u>2015</u>	<u>2014</u>
Bonds Payable - Beginning	\$ 3,912,160	\$ 3,981,420
Bonds Retired	(71,440)	(69,260)
Bonds Payable - Ending	<u>\$ 3,840,720</u>	<u>\$ 3,912,160</u>

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

**NOTE F - BONDS PAYABLE (CONTINUED)**

Bonds payable at December 31, 2015 consists of the following issues:

\$300,000 Water revenue bonds, Series A 1993 maturing through January 1, 2033, with interest at 5.0 percent	\$ 205,000
\$17,000 Water revenue bonds, Series B 1993, maturing through January 1, 2033, with interest at 5.0 percent	11,800
\$375,000 Water revenue bonds, Series 1995, maturing through January 1, 2035, with interest at 4.5 percent	270,000
\$75,000 Water revenue bonds, Series 1999, maturing through January 1, 2039, with interest at 4.5 percent	60,100
\$332,000 Water revenue bonds, Series 2001, maturing through January 1, 2040, with interest at 3.25 percent	260,000
\$300,000 Water revenue bonds, Series 2002, maturing through January 1, 2042, with interest at 4.50 percent	256,700
\$600,000 Water revenue bonds, Series 2003, maturing through January 1, 2043, with interest at 4.375 percent	524,000
\$1,000,000 Water revenue bonds, Series 2006, maturing through January 1, 2045, with interest at 4.125 percent	896,000
\$1,446,000 Water revenue bonds, Series 2008, maturing through January 1, 2048, with interest at 4.125 percent	<u>1,357,120</u>
Total	<u>\$ 3,840,720</u>

**Bond Collateralization Requirements**

According to Bond documents, the Bonds shall be payable solely out of the gross revenues of the System. In addition to the revenue pledge securing the Bonds, a lien is created and granted in favor of the Bond owners on all contracts and on all other rights of the District pertaining to the System.

**Compliance with Bond Ordinances**

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at December 31, 2015, required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash.

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

**NOTE F - BONDS PAYABLE (CONTINUED)**

Sinking Fund Requirements

Sinking fund requirements are equal to the debt service requirements. The annual requirements to amortize all bonds as of December 31, 2015, according to the bond documents, including interest payments are as follows:

**WATER REVENUE BOND – SERIES A 1993**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2016	\$ 8,000	\$ 10,250	\$ 18,250
2017	8,000	9,850	17,850
2018	8,000	9,450	17,450
2019	9,000	9,050	18,050
2020	9,000	8,600	17,600
2021	10,000	8,150	18,150
2022	10,000	7,650	17,650
2023	11,000	7,150	18,150
2024	11,000	6,600	17,600
2025	12,000	6,050	18,050
2026	11,000	5,450	16,450
2027	12,000	4,900	16,900
2028	13,000	4,300	17,300
2029	13,000	3,650	16,650
2030	14,000	3,000	17,000
2031	15,000	2,300	17,300
2032	15,000	1,550	16,550
2033	16,000	800	16,800
	<u>\$ 205,000</u>	<u>\$ 108,750</u>	<u>\$ 313,750</u>

**WATER REVENUE BOND – SERIES B 1993**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2016	\$ 420	\$ 590	\$ 1,010
2017	440	569	1,009
2018	460	547	1,007

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES B 1993 (CONTINUED)**

2019	480	524	1,004
2020	510	500	1,010
2021	530	475	1,005
2022	560	448	1,008
2023	590	420	1,010
2024	620	391	1,011
2025	650	360	1,010
2026	680	327	1,007
2027	720	293	1,013
2028	750	257	1,007
2029	790	220	1,010
2030	830	180	1,010
2031	870	139	1,009
2032	910	95	1,005
2033	990	50	1,040
	<u>11,800</u>	<u>6,385</u>	<u>18,185</u>
	\$	\$	\$

**WATER REVENUE BOND – SERIES 1995**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2016	\$ 9,000	\$ 12,150	\$ 21,150
2017	9,000	11,745	20,745
2018	9,500	11,340	20,840
2019	10,000	10,913	20,913
2020	10,000	10,463	20,463
2021	11,000	10,013	21,013
2022	11,000	9,518	20,518
2023	12,000	9,023	21,023
2024	12,000	8,483	20,483
2025	13,000	7,943	20,943
2026	13,500	7,358	20,858
2027	14,000	6,750	20,750
2028	14,500	6,120	20,620
2029	15,500	5,468	20,968

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 1995 (CONTINUED)**

2030	16,000	4,770	20,770
2031	16,500	4,050	20,550
2032	17,500	3,308	20,808
2033	18,000	2,520	20,520
2034	19,000	1,710	20,710
2035	19,000	855	19,855
	<u>270,000</u>	<u>144,500</u>	<u>414,500</u>
	\$	\$	\$

**WATER REVENUE BOND – SERIES 1999**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2016	\$ 1,400	\$ 2,705	\$ 4,105
2017	1,500	2,642	4,142
2018	1,600	2,574	4,174
2019	1,600	2,502	4,102
2020	1,800	2,430	4,230
2021	1,800	2,349	4,149
2022	1,900	2,268	4,168
2023	2,000	2,183	4,183
2024	2,000	2,093	4,093
2025	2,200	2,003	4,203
2026	2,200	1,904	4,104
2027	2,400	1,805	4,205
2028	2,400	1,697	4,097
2029	2,600	1,589	4,189
2030	2,700	1,472	4,172
2031	2,800	1,350	4,150
2032	2,900	1,224	4,124
2033	3,100	1,094	4,194
2034	3,200	954	4,154
2035	3,300	810	4,110
2036	3,500	662	4,162
2037	3,600	504	4,104

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND - SERIES 1999 (CONTINUED)**

2038	3,800	342	4,142
2039	<u>3,800</u>	<u>171</u>	<u>3,971</u>
	<u>\$ 60,100</u>	<u>\$ 39,327</u>	<u>\$ 99,427</u>

**WATER REVENUE BOND – SERIES 2001**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2016	\$ 7,000	\$ 8,450	\$ 15,450
2017	7,000	8,223	15,223
2018	7,500	7,995	15,495
2019	7,500	7,751	15,251
2020	8,000	7,508	15,508
2021	8,000	7,248	15,248
2022	8,500	6,988	15,488
2023	8,500	6,711	15,211
2024	9,000	6,435	15,435
2025	9,000	6,143	15,143
2026	9,500	5,850	15,350
2027	10,000	5,541	15,541
2028	10,000	5,216	15,216
2029	10,500	4,891	15,391
2030	11,000	4,550	15,550
2031	11,000	4,193	15,193
2032	11,500	3,835	15,335
2033	12,000	3,461	15,461
2034	12,000	3,071	15,071
2035	13,000	2,681	15,681
2036	13,000	2,259	15,259
2037	13,500	1,836	15,336
2038	14,000	1,398	15,398
2039	14,500	943	15,443
2040	<u>14,500</u>	<u>471</u>	<u>14,971</u>
	<u>\$ 260,000</u>	<u>\$ 123,648</u>	<u>\$ 383,648</u>

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2002**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2016	\$ 5,000	\$ 11,552	\$ 16,552
2017	5,300	11,327	16,627
2018	5,500	11,088	16,588
2019	5,800	10,841	16,641
2020	6,000	10,580	16,580
2021	6,300	10,310	16,610
2022	6,600	10,026	16,626
2023	6,900	9,729	16,629
2024	7,200	9,419	16,619
2025	7,500	9,095	16,595
2026	7,900	8,757	16,657
2027	8,200	8,402	16,602
2028	8,600	8,033	16,633
2029	9,000	7,646	16,646
2030	9,400	7,241	16,641
2031	9,800	6,818	16,618
2032	10,200	6,377	16,577
2033	10,700	5,918	16,618
2034	11,200	5,436	16,636
2035	11,700	4,932	16,632
2036	12,200	4,406	16,606
2037	12,800	3,857	16,657
2038	13,300	3,281	16,581
2039	14,000	2,682	16,682
2040	14,500	2,052	16,552
2041	15,300	1,400	16,700
2042	15,800	711	16,511
	<u>\$ 256,700</u>	<u>\$ 191,916</u>	<u>\$ 448,616</u>



**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2003**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2015	\$ 10,000	\$ 22,925	\$ 32,925
2016	10,000	22,488	32,488
2017	11,000	22,050	33,050
2018	11,000	21,569	32,569
2019	12,000	21,088	33,088
2020	12,000	20,563	32,563
2021	13,000	20,038	33,038
2022	13,000	19,469	32,469
2023	14,000	18,900	32,900
2024	14,000	18,288	32,288
2025	15,000	17,675	32,675
2026	16,000	17,019	33,019
2027	16,000	16,319	32,319
2028	17,000	15,619	32,619
2029	18,000	14,875	32,875
2030	19,000	14,088	33,088
2031	20,000	13,256	33,256
2032	21,000	12,381	33,381
2033	21,000	11,463	32,463
2034	22,000	10,544	32,544
2035	23,000	9,581	32,581
2036	24,000	8,575	32,575
2037	26,000	7,525	33,525
2038	27,000	6,388	33,388
2039	28,000	5,206	33,206
2040	29,000	3,981	32,981
2041	30,000	2,713	32,713
2042	32,000	1,400	33,400
2043			
	<u>\$ 524,000</u>	<u>\$ 395,986</u>	<u>\$ 919,986</u>

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2006**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2016	\$ 16,000	\$ 36,960	\$ 52,960
2017	16,000	36,300	52,300
2018	17,000	35,640	52,640
2019	18,000	34,939	52,939
2020	18,000	34,196	52,196
2021	19,000	33,454	52,454
2022	20,000	32,670	52,670
2023	21,000	31,845	52,845
2024	22,000	30,979	52,979
2025	22,000	30,071	52,071
2026	23,000	29,164	52,164
2027	24,000	28,215	52,215
2028	25,000	27,225	52,225
2029	26,000	26,194	52,194
2030	27,000	25,121	52,121
2031	29,000	24,008	53,008
2032	30,000	22,811	52,811
2033	31,000	21,574	52,574
2034	32,000	20,295	52,295
2035	34,000	18,975	52,975
2036	35,000	17,573	52,573
2037	36,000	16,129	52,129
2038	38,000	14,644	52,644
2039	39,000	13,076	52,076
2040	41,000	11,468	52,468
2041	43,000	9,776	52,776
2042	45,000	8,003	53,003
2043	46,000	6,146	52,146
2044	48,000	4,249	52,249
2045	55,000	2,269	57,269
	<u>\$ 896,000</u>	<u>\$ 683,969</u>	<u>\$ 1,579,969</u>

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2008**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2016	\$ 20,030	\$ 55,981	\$ 76,011
2017	20,860	55,155	76,015
2018	21,720	54,294	76,014
2019	22,620	53,399	76,019
2020	23,550	52,465	76,015
2021	24,520	51,494	76,014
2022	25,530	50,483	76,013
2023	26,590	49,429	76,019
2024	27,680	48,333	76,013
2025	28,820	47,191	76,011
2026	30,010	46,002	76,012
2027	31,250	44,764	76,014
2028	32,540	43,475	76,015
2029	33,880	42,133	76,013
2030	35,280	40,735	76,015
2031	36,740	39,280	76,020
2032	38,250	37,764	76,014
2033	39,830	36,187	76,017
2034	41,470	34,544	76,014
2035	43,180	32,833	76,013
2036	44,960	31,052	76,012
2037	46,820	29,197	76,017
2038	48,750	27,266	76,016
2039	50,760	25,255	76,015
2040	52,850	23,161	76,011
2041	55,030	20,981	76,011
2042	57,300	18,711	76,011
2043	59,670	16,347	76,017
2044	62,130	13,886	76,016
2045	64,690	11,323	76,013
2046	67,360	8,655	76,015
2047	70,140	5,876	76,016
2048	72,310	2,983	75,293
	<u>\$ 1,357,120</u>	<u>\$ 1,150,634</u>	<u>\$ 2,507,754</u>

**NOTE F - BONDS PAYABLE (CONTINUED)**

**BONDS PAYABLE IN THE AGGREGATE**

Year Ended December 31	Scheduled Principal	Scheduled Interest
2016	\$ 76,850	\$ 161,563
2017	78,100	158,299
2018	82,280	154,978
2019	86,000	151,488
2020	88,860	147,830
201-2025	506,490	678,881
2026-2030	616,630	562,172
2031-2035	725,640	419,534
2036-2040	712,140	270,960
2041-2045	657,920	121,896
2046-2048	209,810	17,514
Totals	<u>\$ 3,840,720</u>	<u>\$ 2,845,115</u>

**NOTE G - RETIREMENT**

*General Information about the Pension Plan*

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the KRS insurance fund. The District's contribution rate for nonhazardous employees was 17.67 percent for the first six months of 2015 and 17.06 percent for the last six months of 2015.

The District's contribution for calendar year 2013 was \$30,170, calendar year 2014 was \$31,008, and calendar year 2015 was \$28,251.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

**NOTE G - RETIREMENT (Continued)**

*General Information about the Pension Plan (Continued)*

CERS also provides post-retirement health care coverage as follows:

For member participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

*Pension Liabilities*

At December 31, 2015, the District has a liability of \$218,000 for its proportionate share of the net pension liability for non-hazardous retirement. 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 by the Kentucky Retirement Systems. 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, 2014, the District's proportion was .006712%.

For the year ended December 31, 2015, the District recognized pension expense of \$17,000. At December 31, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NOTE G - RETIREMENT (Continued)**

*Pension Liabilities (Continued)*

**SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS**

<b>NON-HAZARDOUS</b>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$	\$ 24,000
District Contributions Subsequent to the Measurement Date	<u>28,251</u>	
Total	<u>\$ 28,251</u>	<u>\$ 24,000</u>

The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>
Year 1	\$ (6,077)
Year 2	\$ (6,077)
Year 3	\$ (6,077)
Year 4	\$ (6,077)
Year 5	\$ 0
Thereafter	\$ 0

An amount of \$28,251 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

Actuarial Methods and Assumptions

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

Inflation	3.5%
Salary Increases	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

## NOTE G - RETIREMENT (Continued)

### *Pension Liabilities (Continued)*

#### Actuarial Methods and Assumptions (Continued)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. 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.

Projected future benefit payments for all current plan members were projected through 2116.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	1.25%
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%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	<u>100%</u>	

**NOTE G - RETIREMENT (Continued)**

*Pension Liabilities (Continued)*

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed 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 7.75 percent. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

The following presents the net pension liability of the District, calculated using the discount rate of percent, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate for non-hazardous:

**NON-HAZARDOUS**

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's Net Pension Liability	\$ 286,561	\$ 217,763	\$ 156,978

Deferred Inflows and Outflows

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. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of December 31, 2015, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. 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.

401K

In January 2001, the district began a non-matching 401K deferred compensation plan. The employees may contribute twenty-five percent (25%) of their compensation, not to exceed \$10,500 annually. Participation is optional. Benefits are available upon separation of service or attainment of age fifty-nine and one-half (59.5) years. Benefits must commence by the later of: April 1 of the calendar year in which employment ends, or the calendar year in which the employee reaches age seventy and one-half (70.5) years of age.



#### **NOTE H - INSURANCE COVERAGE**

For the fiscal year ended December 31, 2015, the District was a member of the Kentucky Association of Counties All Lines Insurance Fund (KALF). KALF is a self- insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses. There have been no settlements that have exceeded insurance coverage for each of the past three fiscal years.

#### **NOTE I – COMPENSATED ABSENCES**

Upon termination of employment from the District, an employee who has been an employee of the District for a total of twelve months shall be compensated for a maximum of fifteen days of accrued annual leave. Employees accumulate 3.69 hours of annual leave per pay period. Employees employed less than six months upon termination will not be compensated for accrued annual leave, unless approved by the Water District Manager. Annual leave accrued as of December 31, 2014 is \$10,953 and as of December 31, 2015 is \$10,953.

#### **NOTE K – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 26, 2016, which is the date the financial statements were available to be issued.

#### **NOTE L – PRIOR PERIOD ADJUSTMENT**

Beginning Net Position for the year ended December 31, 2015 was decreased by \$225,000 to accommodate the implementation of GASB 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.

**MORGAN COUNTY WATER DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
 NET PENSION LIABILITY  
 For the Year Ending December 31, 2015**

	<u>Non-Hazardous</u>
June 30, 2014 District's Proportion of the Net Pension Liability (Asset)	0.006712%
June 30, 2014 District's Proportionate Share of the Net Pension Liability (Asset)	\$ 218,000
June 30, 2014 District's Covered-Employee Payroll	\$ 181,675
June 30, 2014 District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	119.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%

DRAFT

**MORGAN COUNTY WATER DISTRICT  
SCHEDULE OF THE DISTRICTS' CONTRIBUTIONS  
Fiscal Year Ended December 31, 2015**

	<u>Non-Hazardous</u>
June 30, 2014 Contractually Required Contribution	\$ 29,088
June 30, 2014 Contributions in Relation to the Contractually Required Contribution	<u>31,008</u>
Contribution Deficiency (Excess)	<u>\$ (1,920)</u>
District's Covered-Employee Payroll	\$ 181,675
Contributions as a Percentage of Covered-Employee Payroll	17.07%

DRAFT

**Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance  
And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With  
*Government Auditing Standards***

Board of Directors  
Morgan County Water District  
West Liberty, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Morgan County Water District (the 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 and have issued our report thereon dated April 26, 2016.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

**Independent Auditors' 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**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Morgan County Water District's financial statements are free from 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.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

April 26, 2016