CALDWELL COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

CALDWELL COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Caldwell County Water District
Princeton, Kentucky

We have audited the accompanying financial statements of the Caldwell County Water District as of and for the year ended December 31, 2015, and the related notes to the financial statements, which 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 the 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 of 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 assessments 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 Caldwell County Water District as of December 31, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

140 COMMERCE ST.
PO BOX 909
EDDYVILLE, KY 42038
270-388-4114 OFFICE
270-388-2363 FAX

Change in Accounting Principle
As discussed in Note 13 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for the Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedule of contributions, and schedule of proportionate share of net pension liability on pages 3 through 8 and 31 through 35 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.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued a report dated August 9, 2016, on our consideration of the Caldwell County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Jessica K Daniel, CPA

Eddyville, Kentucky
August 9, 2016

CALDWELL COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(UNAUDITED)

The Caldwell County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the years ended December 31, 2015. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources of the District exceed its total liabilities and deferred inflows of resources at December 31, 2015 by $6,403,704 (Net Position). Of this amount, $25,285 represents the unrestricted net position.
- The District's net position decreased by $322,979 resulting in a December 31, 2015 balance of $6,403,704. This balance represents a change of 5% decrease in net position over the restated December 31, 2014 balance of $6,726,683.
- The District's 2015 operating revenues of $1,068,248 decreased 4.0% from the 2014 amount, while operating expenses for 2015 of $1,283,249 increased 6.3%. Non-operating income for 2015, consisted of interest income of $1,844 and capital contributions consisted of tap on fees of $18,935.
- The District's unrestricted cash available for operating expenses was $360,712 at December 31, 2015.
- The District's investment in capital assets was $8,846,834 net of depreciation at December 31, 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

Caldwell Count Water District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net position. The statement of net position presents the financial position of the District. It presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on page 9.

Statement of revenues, expenses and changes in net position. The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 10 of this report.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 11.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 12-29 of this report.

Supplementary Information. In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on page 31-37.

The District implemented Governmental Accounting Standard Boards ("GASB") Statement No. 68 "*Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27" ("GASB #68") and GASB Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date*—an amendment of GASB Statement No. 68"("GASB #71" and collectively "Statements") in 2015. These Statements require the District to recognize a net pension asset/liability, deferred outflows of resources, and deferred inflows of resources for the District's Employees' Retirement Plan, and for their participation in the Kentucky County Employees Retirement System, a cost-sharing multiple-employer defined benefit pension plans, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting and presents more extensive note disclosures. The adoption has resulted in the restatement of the District's net position as of January 1, 2015 to reflect the reporting of net pension assets/liabilities and deferred outflows of resources for the qualified Plan in accordance with the provisions of these Statements. Net position of the as of January 1, 2015 was decreased by approximately $299,687 reflecting the cumulative change in accounting principle related to the adoption of these Statements related to the State Retirement Plan.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $6,403,704 as of December 31, 2015.

The District's overall financial position and operations for the past two years are summarized as follows:

CALDWELL COUNTY WATER DISTRICT'S
NET POSITION

	2015	2014
Assets:		
Current and other assets	$ 1,287,372	$ 1,308,043
Capital assets	8,846,834	9,171,217
Total Assets	10,134,206	10,479,260
Deferred Outflows of Resources:	54,268	-
Liabilities:		
Other liabilities	178,953	155,890
Current portion of long-term debt	86,500	83,000
Long-term liabilities	3,486,449	3,214,000
Total Liabilities	3,751,902	3,452,890
Deferred Inflows of Resources	32,868	-
Net Position:		
Net investment in capital assets	5,632,834	5,874,217
Restricted	745,585	563,478
Unrestricted	25,285	588,675
Total Net Position	$ 6,403,704	$ 7,026,370

The largest portion of the District's net position (88%) reflects its investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies and mapping and infrastructure), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position (12%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position $25,285 may be used to meet the District's ongoing obligations to citizens and creditors.

As of December 31, 2015, the District is able to report positive balances in all three categories of net position.

Analysis of the District's Operations – Overall the District had a decrease in net position of $322,979.

The following table provides a summary of the District's operations for the year ended December 31, 2015 and 2014.

CALDWELL COUNTY WATER DISTRICT
CHANGES IN NET POSITION

		2015		2014
Revenues				
Operating revenues	$	1,068,248	$	1,113,224
Investment income		1,844		1,988
Gain (loss) on sale of assets		9,000		-
Capital grants and contributions		18,935		11,516
Total revenues		1,098,027		1,126,728
Expenses				
Depreciation and amortization		390,573		389,022
Source of supply purchases		385,158		291,583
Administrative and general expenses		305,609		288,696
Transmission and distribution expenses		171,135		199,419
Interest on debt and other		137,757		141,396
Payroll and other taxes		15,438		15,617
Customer accounts expenses		10,619		10,722
Water treatment		3,955		5,803
Bad debts		762		1,234
Total Expenses		1,421,006		1,343,492
Change in net position		(322,979)		(216,764)
Net position - January 1 - restated		6,726,683		7,238,133
Net position - December 31	$	6,403,704	$	7,021,369

FINANCIAL ANALYSIS OF THE DISTRICT’S OPERATIONS

Overall, the District's financial position is consistent with the previous year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets for business-type activities as of December 31, 2015, amounts to $8,846,834 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure. The total decrease in the District's net investment in capital assets for the fiscal year was 4%.

	2015	2014
Business-type activities:		
Capital assets, not being depreciated:		
Land	$ 9,000	$ 9,000
Total capital assets, not being depreciated	9,000	9,000
Capital assets, being depreciated:		
Transmission and distribution	8,630,971	8,968,435
Furniture and fixtures	7,294	11,970
Machinery and equipment	112,607	89,188
Building	81,479	86,640
Leasehold improvements	5,483	5,983
Total capital assets, being depreciated	8,837,834	9,162,216
Business-type activities capital assets, net	$ 8,846,834	$ 9,171,216

During the year ended December 31, 2015, the District acquired assets totaling $66,190 with $12,279 of that amount being meter sets, $19,156 of miscellaneous equipment, and $29,071 being for an excavator. A backhoe was sold during the year for $9,000.

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-term and other debt

At the end of the current year, the Caldwell County Water District had total debt of $3,214,000. No new debt was issued in 2015. Long-term debt at December 31, 2015, was as follows:

	2015	2014
Waterworks revenue series 1993	$ 284,000	$ 293,500
Waterworks revenue series 1996	673,000	692,000
Waterworks revenue series 1999	641,500	656,500
Waterworks revenue series 2000	340,500	348,000
Waterworks revenue series 2002	697,000	710,000
Waterworks revenue series 2004	533,000	542,000
KIA loan 1993	45,000	55,000
Total	$ 3,214,000	$ 3,297,000

Interest expense of $137,757 was incurred during the year ended December 31, 2015.

Additional information on the District's long-term debt can be found in Note 6 of this report.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Caldwell County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Jimmy Littlefield, CEO, Caldwell County Water District, 118 West Market Street, Princeton, KY 42445.

Caldwell County Water District
Statement of Net Position
December 31, 2015

Assets	**2015**
Current Assets:	
Cash equivalents	$ 360,712
Customer accounts receivable (less allowance for uncollectible accounts of $11,044)	96,243
Unbilled revenue	48,630
Inventory	36,202
Prepayments	12,712
Restricted assets:	
Cash equivalents	39,263
Investments	693,610
Total current assets	1,287,372
Noncurrent Assets:	
Capital assets, net of depreciation	8,846,834
Total noncurrent liabilities	8,846,834
Total Assets	10,134,206
Deferred Outflows of Resources	
Deferred outflows of related pensions	54,268
Total deferred outflows of resources	54,268
Liabilities	
Current liabilities:	
Trade accounts payable	58,306
Accrued liabilities	14,770
Accrued interest on debt	67,617
Customers' deposits	38,260
Long-term debt due in one year	86,500
Total current liabilities	265,453
Noncurrent liabilities:	
Long-term debt due after one year	3,127,500
Net pension liability	358,949
Total noncurrent liabiltiies	3,486,449
Total Liabilities	3,751,902
Deferred Inflows of Resources	
Deferred inflows related to pensions	32,868
Total deferred inflows of resources	32,868
Net Position	
Net investment in capital assets	5,632,834
Restricted for:	
Debt service	694,613
Customer deposits	38,260
Prepaid expenses	12,712
Unrestricted	25,285
Total Net Position	$ 6,403,704

See accompanying notes to financial statements.

Caldwell County Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2015

		2015
Operating Revenue		
Water revenues	$	1,037,400
Other		30,848
Total Operating Revenues		1,068,248
Operating Expenses		
Depreciation		390,573
Source of supply purchases		385,158
Administrative and general expenses		305,609
Transmission and distribution expenses		171,135
Payroll and other taxes		15,438
Customer accounts expenses		10,619
Water treatment		3,955
Bad debts		762
Total Operating Expenses		1,283,249
Operating Income (Loss)		(215,001)
Nonoperating Revenues (Expenses)		
Investment income		1,844
Gain (loss) on capital asset disposals		9,000
Interest on debt		(137,757)
Total Nonoperating Revenue (Expenses)		(126,913)
Net Income before Capital Contributions		(341,914)
Capital Contributions		18,935
Change in Net Position		(322,979)
Net Position-Beginning of Year		7,026,370
Prior period adjustments (See Note 13)		(299,687)
Net Position-End of Year	$	6,403,704

See accompanying notes to financial statements.

Caldwell County Water District
Statement of Cash Flows
For the Year Ended December 31, 2015

		2015
Cash Flows from Operating Activities		
Cash received from customers	$	1,095,401
Cash payments to suppliers for goods and services		(517,474)
Cash payments to employees for services		(329,072)
Net Cash Provided By Operating Activities		248,855
Cash Flows From Capital and Related Financing Activities		
Principal paid on capital debt		(83,000)
Contributed capital		18,935
Acquisition of property, plant, and equipment		(66,190)
Proceeds from the sale of assets		9,001
Interest paid on debt		(139,335)
Net Cash Used by Capital and Related Financing Activities		(260,589)
Cash Flows From Investing Activities		
Income received on investments		45
Sale of investment securities		20,114
Purchase of investment securities		(170,872)
Net Cash Used By Investing Activities		(150,713)
Net Increase (Decrease) in Cash Equivalents		(162,447)
Cash Equivalents-Beginning of Year		562,422
Cash Equivalents-End of Year	$	399,975
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating Income (Loss)	$	(215,001)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		390,573
Change in assets and liabilities		
Decrease (increase) in accounts receivable		27,154
Decrease (increase) in inventory		(13,045)
Decrease (increase) in prepayments		(3,326)
Decrease (increase) in deferred outflows of resources		(54,268)
Increase (decrease) in accounts payable		21,457
Increase (decrease) in customer deposits		6,170
Increase (decrease) in accrued liabilities		(2,989)
Increase (decrease) in deferrd pension liability		59,262
Increase (decrease) in deferred inflows of pensions		32,868
Net Cash Provided By Operating Activities	$	248,855
Reconciliation of Total Cash		
Current Assets - Cash	$	360,712
Restricted Assets - Cash		39,263
Total Cash	$	399,975

Non-cash Investing, Capital and Related Financing Activities - None

See accompanying notes to financial statements.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Caldwell County Water District, (the District), is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Princeton, Kentucky and primarily serves rural Caldwell County.

The accounting and reporting policies of the District relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The District adopted GASB 68 and GASB 71 in the current year. The more significant accounting policies of the District are described below:

Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, net position, revenues and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Reclassifications
Prior period financial statement amounts have been reclassified to conform to current period presentation. Operating income and net earnings for the prior period were not impacted by the reclassifications.

Budget
The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.

2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2015, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments
Cash and cash equivalents are deposited with First Southern National Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

Prepaid Items
Payments made to vendors for services that will benefit periods beyond December 31, 2015 are recorded as prepaid items.

Post Employment Benefits
Post employment benefits are those received by employees after termination of employment. The District provides no such benefits.

Capital Assets
Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Transmission and Distribution Equipment	20 to 65 years
Furniture, Machinery and Equipment	5 to 10 years
Leasehold Improvements	15 to 25 years
Vehicles	3 to 5 years

Allowance for Uncollectible Accounts
An allowance for uncollectible accounts has been provided based on an analysis of receivables outstanding more than 120 days. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the December 31, 2015 accounts receivable.

Unearned Revenue
The District recognizes certain revenue transactions as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance exenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available.

Inventory
Inventories are generally used for repair and replacement of infrastructure and connection of new services and are stated at average cost.

Restricted Assets
The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. 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 needed. See Note 4 for information describing restricted assets.

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

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 disaster. During the year ended December 31, 2015, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

Bond Discounts/Issuance Costs
The District adopted GASB 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2013. GASB 65 requires that debt issuance costs be expensed in the period they are incurred.

Pensions
For purposes of measuring the net pension liability deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System in the Kentucky Retirement Systems (KRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the KRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the County Employees Retirement System. Investments are reported as fair value.

Net Position
In the financial statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Deferred Outflows of Resources and Deferred Inflows of Resources
Deferred Outflows of Resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outlfows or resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualify for reporting in this category.

Deferred Inflows of Resources: In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred inflows related to pensions are reported in the government-wide statement and proprietary statement of net position. A deferred inflow from pensions results from net differences between expected and actual earnings on pension plan investments. This amount is deferred and will be recognized as a reduction of pension expense over the next four years.

Adoption of New Accounting Pronouncements

GASB Statement No. 68

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, was issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. It requires the liability of the employers and non-employer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payment to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, this statement requires additional changes to Required Supplementary Information, among other extensive changes.

GASB Statement No. 69

GASB Statement No. 69, *Government Combinations and Disposals of Government Operation*, was issued January 2013. The provisions of this Statement are effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

GASB Statement No. 70

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, was issued April 2013. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange guarantees and by those governments that receive nonexchange guarantees.

GASB Statement No. 71

GASB Statement No. 71, *Accounting and Financial Reporting for Pensions*, was issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. The objective of this statement is to address an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Subsequent Events

The District has evaluated subsequent events through August 09, 2016, the date which the financial statements were available to be issued.

2. LEGAL COMPLIANCE

Deficit Net Position

There was not a deficit net position for the year ended December 31, 2015.

Budgets

Excess of Expenditures Over Appropriations

The District has an excess of actual expenditures over budget for the year ended December 31, 2016 of $48,072. This excess was due mainly to increased water purchases and the change in pension reporting under GASB 68.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2015

3. DEPOSITS AND INVESTMENTS

1. Net Position

The captions on the statement of net position for cash, investments and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	Cash on Hand	Deposits	Investments	Total
Cash equivalents	$ 550	$ 360,162	$ -	$ 360,712
Investments	-	-	-	-
Restricted assets:				
Cash equivalents	-	39,263	-	39,263
Investments	-	693,610	-	693,610
Total	$ 550	$ 1,093,035	$ -	$ 1,093,585

2. Deposits

At year-end, the carrying amount of the District's deposits in financial institutions were $1,093,585 and the bank balances were $1,100,722. Of the bank balances, $250,000 was covered by federal depository insurance, with $850,722 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

The collateral agreement with First Southern Bank states that $850,722 of securities will be held as collateral for the District year round. The agreement states that it is the District's responsibility to inform the bank in a timely manner when the District will have deposits that will exceed the amount of securities pledged in order for the Bank to purchase additional securities for collateral.

3. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be invested with one issuer. At December 31, 2015, the District had 100% of its investments in fully collateralized certificates of deposit.

Identification
At December 31, 2015, the District had the following investments:

Investment	Maturities	Fair Value
Certificates of Deposit:		
First Southern National Bank	12/21/2016	$ 351,415
First Southern National Bank	12/21/2016	342,195
Total Investments		$ 693,610

4. RESTRICTED NET POSITION

Net Assets Restricted for Debt Retirement

	Depreciation Fund	Sinking Fund	Water Projects	Customer Meter Deposits	Total
Cash equivalents	$ -	$ -	$ 1,003	$ 38,260	$ 39,263
Investments:					
Certificates of deposit	342,195	351,415	-	-	693,610
Totals	$ 342,195	$ 351,415	$ 1,003	$ 38,260	$ 732,873

Restricted Cash

The Caldwell County Water District Bonds (All Series) require the District establish a Sinking Reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve month period on all of the outstanding bonds. The District has been making the required monthly deposits of $17,813 to service the outstanding debt. At December 31, 2015, the balance of the Sinking Reserve was $351,415.

The Bonds also required that a Depreciation Account be funded monthly. The 1999 Series Bonds require that amounts be deposited over the life of the Bonds. The remaining series require the Depreciation Fund be funded until the balance reaches certain amounts with the maximum amount being $79,800. The District is funding the Depreciation Fund monthly as required, depositing $2,061 per month. At December 31, 2015, the balance of the Depreciation Fund was $342,195.

The District maintains a water project account for use when special projects are being funded. At December 31, 2015, that balance was $1,003. There were no special projects in process.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2015

5. CAPITAL ASSETS

A summary of proprietary fund property, plant and equipment at December 31, 2015 for business-type activities follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 9,000	$ -	$ -	$ 9,000
Total capital assets, not being depreciated	9,000	-	-	9,000
Capital assets, being depreciated:				
Transmission and distribution	13,818,736	12,279	-	13,831,015
Furniture and fixtures	71,446	-	-	71,446
Machinery and equipment	272,488	53,911	(13,000)	313,399
Building	103,242	-	-	103,242
Leasehold improvement	35,250	-	-	35,250
Total capital assets, being depreciated	14,301,162	66,190	(13,000)	14,354,352
Less accumulated depreciation for:				
Transmission and distribution	(4,850,301)	(349,743)	-	(5,200,044)
Furniture and fixtures	(59,476)	(4,676)	-	(64,152)
Machinery and equipment	(183,300)	(30,492)	13,000	(200,792)
Building	(16,601)	(5,162)	-	(21,763)
Leasehold improvement	(29,267)	(500)	-	(29,767)
Total accumulated depreciation	(5,138,945)	(390,573)	13,000	(5,516,518)
Total capital assets, being depreciated, net	9,162,217	(324,383)	-	8,837,834
Business-type activities capital assets, net	$ 9,171,217	$ (324,383)	$ -	$ 8,846,834

Depreciation charged to income was $390,573.

6. DEBT OBLIGATIONS

Revenue Bonds Payable

Description	Interest Rate	Maturity Date	Balance 12/31/2015	Due in One Year
Waterworks Revenue Bonds				
Series 1993	5.00%	2033	$ 284,000	$ 10,000
Series 1996	4.875%	2035	673,000	20,000
Series 1999	3.25%	2039	641,500	15,500
Series 1999	4.375%	2039	340,500	8,000
Series 2002	4.375%	2042	697,000	14,000
Series 2004	4.125%	2044	533,000	9,000
Total			3,169,000	$ 76,500
Less current portion			(76,500)	
Long-term portion			$ 3,092,500	

Principal and interest requirements of the revenue bonds payable as of December 31, 2015 are:

Year Ending December 31,	Principal	Interest & Fees	Total
2016	76,500	135,234	211,734
2017	79,500	131,922	211,422
2018	84,000	128,478	212,478
2019	88,000	124,841	212,841
2020	91,500	121,028	212,528
2021-2025	531,000	541,284	1,072,284
2026-2030	666,500	414,863	1,081,363
20230-2034	800,000	255,841	1,055,841
2035-2039	548,000	106,060	654,060
2040-2043	204,000	18,185	222,185
Total	$ 3,169,000	$ 1,977,736	$ 5,146,736

Information on individual debt instruments follows:

Series 1993
During 1993, Caldwell County Water District adopted a resolution to issue $410,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1993 dated October 22, 1993 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $205 per month until there is accumulated an amount of at least $24,600. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

Principal maturities falling due prior to January 1, 2009 shall not be subject to prepayment.

Principal maturities falling due on and after January 1, 2009 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2009 at par plus accrued interest, without any prepayment penalty. Interest, at 5.0% is paid each January 1 and July 1.

Series 1996
During 1996, Caldwell County Water District adopted a resolution to issue $900,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1996 dated November 12, 1996 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $611 per month until there is an accumulated amount of at least $79,800. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

Principal maturities falling due prior to January 1, 2009 shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2009 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2009 at par plus accrued interest, without any prepayment penalty. Interest, at 4.875% is paid each January 1 and July 1.

Series 1999
During 1999, Caldwell County Water District adopted a resolution to issue $800,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1999 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $370 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.375% is paid each January 1 and July 1.

Series 1999
During 1999, Caldwell County Water District adopted a resolution to issue $420,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2000 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $205 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

Interest, at 3.25% is paid each January 1 and July 1.

Series 2003
During 2004, Caldwell County Water District adopted a resolution to issue $815,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2003 dated June 17, 2004 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $390 per month until there is accumulated in the Depreciation Fund the sum of at least $46,800. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 3.25% is paid each January 1 and July 1.

Series 2004
During 2005, Caldwell County Water District adopted a resolution to issue $600,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2004 dated September 27, 2005 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of $280 per month until there is accumulated in the Depreciation Fund the sum of at least $33,600. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.125% is paid each January 1 and July 1.

Kentucky Infrastructure Authority Note Payable
In July 2004, Caldwell County Water District entered into an assistance agreement with Kentucky Infrastructure Authority. Assistance in the form of a $150,000 loan was provided for line expansion. The loan is to be repaid in monthly installments beginning in September 2004 and ending June 2018. Interest is variable ranging from 2.25% to 5.25%.

Year Ending December 31,	Principal	Interest & Fees	Total
2016	10,000	2,096	12,096
2017	20,000	6,608	26,608
2018	15,000	668	15,668
Total	$ 45,000	$ 9,372	$ 54,372

Changes in Business-Type Activities Debt

A summary of changes in the business-type activities debt for the year ended December 31, 2015 follows:

	Balance 12/31/2014	Principal Payments	Balance 12/31/2015	Due Within One Year
Business-Type Activities:				
Revenue Bonds Payable	$ 3,242,000	$ 73,000	$ 3,169,000	$ 76,500
Kentucky Infrastructure Authority	55,000	10,000	45,000	10,000
Total Business-Type Activities	$ 3,297,000	$ 83,000	$ 3,214,000	$ 86,500

7. EMPLOYEES' RETIREMENT PLAN

County Employees' Retirement System

Plan description. The Caldwell County Water District is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems Board of Trustees (KRS Board) established pursuant to Kentucky Revised Statues (KRS) Section 78.630. KRS Section 61.645 grants the authority to establish and amend the benefit terms to the Kentucky Retirement Systems (Board). CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All District employees participating in the CERS are classified as having a nonhazardous position for the purpose of KRS 61.592. Kentucky Retirement Systems issues a publicly available financial reports that include financial statements and required supplementary information. CERS information that can be obtained at https://kyret.ky.gov.

Benefits provided. The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2003, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to th eeffective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Contributions.. Covered employees who began participating prior to September 1, 2008, are required by state statute to contribute 5% of their salary to CERS. Covered employees who began participating on, or after, September 1, 2008, are required by state statute to contribute 6% of their salary to CERS. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund.

Covered employees who began participation on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Covered employees in the plan contribute a set percentage of their salary each month to their own account. Employee contribution rates are 5% for those classified as nonhazardous and 1% to the health insurance fund which is not credited to the employee's account and is not refundable. The employer contribution rate is set annually by the KRS Board based on an actuarial valuation. The employer contributes a set percentage of the employee's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the employee's account equal to 4% for those classified as nonhazardous. The employer pay credit represents a portion of the total employer contribution.

Employers are required by state statute (KRS 78.545) to contribution the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the KRS Board annually based upon actuarial valuations. The District contributed 17.67% (from January - June of 2015) and 17.06% (from July - December of 2015), respectively, of member's nonhazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. The District made all required contributions for the Plan pension obligation for the year ended December 31, 2015 in the amount of $44,538.

Refunds of contributions. Employees who have terminated service as a contribution member of CERS may file an application for a refund of their contributions. Employee accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 2081; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter. For employees participating prior to September 1, 2008, the interest paid is set by the KRS Board and will not be less than 2%, for employees participating on or after September 1, 2008 but before January 1, 2014, interest will be credited at a rate if 2.5%. For employees participating on or after January 1, 2014, interest will be credited at a minimum rate of 4%.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At December 31, 2015, the District reported a liability of $358,949 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's share of contributions to CERS relative to the total contributions of all participating employers, actuarially determined. At June 30, 2015, the District's proportion was 0.008349%, which was a decrease of 0.000302% from its proportion measured as of June 30, 2014.

Pension expense. As a result of its requirement to contribute to CERS, the District recognized pension expenses of $62,254 for the year ended December 31, 2015. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,218	$ -
Chnages of assumptions	36,196	-
Net difference between projected and actual earnings on plan investments	2,983	25,064
Changes in proportion and differences between District contributions and proportionate share of contributions	-	7,804
District contributions subsequent to the measurement date	11,871	-
Totals	$ 54,268	$ 32,868

The amount reported as deferred outflows for District contributions subsequent to the measurement date of $11,871, will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be amortized over five years and recognized in pension expense as follows:

Fiscal Year Ending June 30,	Deferred Outflows of Resources	Fiscal Year Ending June 30,	Deferred Inflows of Resources
2016	$ 597	2016	$ 6,266
2017	597	2017	6,266
2018	597	2018	6,266
2019	596	2019	6,266
2020	596	2020	-
	$ 2,983		$ 25,064

Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized over the expected remaining service lives of all employees that are provided with pensions through the pension plan (3.51 years) and recognizes in pension expense as follows:

Fiscal Year Ending June 30,	Deferred Outflows of Resources	Fiscal Year Ending June 30,	Deferred Inflows of Resources
2016	$ 11,229	2016	$ 2,223
2017	11,229	2017	2,223
2018	11,229	2018	2,223
2019	5,727	2019	1,135
	$ 39,414		$ 7,804

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	3.25%
Salary increases, average, including inflation	4.00%
Investment rate of return, net of pension plan investment expense, including inflation	7.50%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. 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 cover 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.

Discount Rate. The discount rate used to measure the total pension liability as of the measurement date was 7.5%. 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. The discount determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117. The target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
	100%	

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
The District's proportionate share of the net pension liability	$ 189,860	$ 358,949	$ 273,927

Payables to the pension plan. At December 31, 2015, the financial statements include $4,092 in payables to CERS. These are legally required contributions to the plan. These amounts are not accounted for in the net pension liability.

Postretirement healthcare benefits. In addition to the pension benefits described above, the KRS provides postretirement healthcare benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund). The Insurance Fund was established to provide hospital and medical insurance for those receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medial insurance. For the year ended June 30, 2015 (the date of the latest available information), insurance premiums withheld from benefit payments for those receiving benefits from CERS were $22.6 million and $1.7 million for nonhazardous and hazardous, respectively. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous employees killed in the line of duty. As of June 30, 2015, the Insurance Fund had 108,952 retirees and beneficiaries for whom benefits were available.

The amount of contributions paid by the Insurance Fund is based on years of service. For employees participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are shown below:

Service Period	% paid by Insurance Fund
20 or more years	100%
15-19 years	75%
10-14 years	50%
4-9 years	25%
Less than 4 years	0%

As a result of House Bill 290 (2004) Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Once employees reach a minimum vesting period of ten years, nonhazardous employees whose participation began on or after July 1, 2003 earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn $15 per month for insurance benefits for each year of the deceased employee's unearned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November, 1992, the Board adopted a fixed percentage rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the KRS Board adopted a policy to increase the insurance rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the KRS Board voted to cease self-funding of healthcare benefits for most Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

8. COMMITMENTS

Purchase Contracts

South Hopkins Water District

On March 3, 2004, the District entered into a long-term contract with South Hopkins Water District for the purchase of treated water. The contract for water is for a period of 40 years and calls for water sales not to exceed 250,000 gallons per month and not to exceed 15,000 gallons in any 24-hour period unless an emergency exists. The rate is equal to the cost of water from Dawson Springs, plus amortization of supply facilities ($0.12 per 1,000 gallons), plus additional plumbing costs, plus 25%. Effective July 1, 2012 the rate changed to $2.48 per 1,000 gallons. Payment is due by the 20th of each month. The District purchased $2,049 from South Hopkins Water District during the year ended December 31, 2015.

Princeton Water & Wastewater

On October 11, 2002, the District entered into a long-term contract with Princeton Water & Wastewater for the purchase of treated water. The contract for water is for a period of 45 years and calls for water sales not to exceed 12 million gallons per month. The rate increased on November 4, 2010 to $2.706 per 1,000 gallons. Another rate increase of $3.058 per 1,000 gallons was effective June 30, 2014. Payment is due by the 15th of each month. The District purchased $372,359 from Princeton Water & Wastewater during the year ended December 31, 2015.

Caldwell County Fiscal Court

On April 8, 2010, the District entered into a lease agreement with the Caldwell County Fiscal Court to lease the premises located at 118 W. Market Street. The term of this lease is for ten (10) years, ending on March 31, 2020, subject however to continuation of four (4) ten (10) year consecutive terms at the mutual agreement of both parties. There are no monetary terms associated with the lease, however, the District is responsible for taxes and insurance on the property.

9. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2015 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2015

10. ECONOMIC DEPENDENCIES

The majority of the District's revenue consists of charges for water-related services to customers in Caldwell County, Kentucky. For the year ended December 31, 2015, the revenues from these sources totaled $1,037,400. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

11. COMPENSATED ABSENCES

The District grants employees vacation time based on years of service. Full-time employees, with one (1) year continuous service, are entitled to vacation pay according to the following schedule:

1 to 3 years	1 week
3 to 10 years	2 weeks
10+ years	3 weeks

Employees must use vacation within the twelve month period after the time is earned. Upon termination of employment, an employee will be paid for all unused vacation leave. The liability for unused vacation time at December 31, 2015 was $5,617.

The District's policy on sick pay states that employees will be granted one sick day per month. During the employee's probationary period sick leave may be earned but not taken. Sick leave is forfeited upon termination of employment. The District's policy is to recognize the cost of compensated medical leave when actually paid to employees.

12. LITIGATION

The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

13. RESTATEMENT OF PRIOR YEAR STATEMENTS

Changes in accounting principle

The net position was restated to reflect implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (which amends GASB Statement No. 27), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 changed how governments' measure and report long-term obligations and annual costs associated with the pension benefits they provide. GASB Statement No. 71 addressed the issue of contributions made to defined benefit pension plans after the measurement date for the year in which GASB Statement No. 68 is implemented. The District has recorded an adjustment to the Beginning Net Position of $299,687 at December 31, 2015.

Net position at January 1, 2015	$ 7,026,370
Net pension liability	(280,671)
Deferred outflows of resources related to pension	12,314
Deferred inflows of resources related to pension	(31,330)
Net position at January 1, 2015, as restated	$ 6,726,683

REQUIRED SUPPLEMENTARY INFORMATION

Caldwell County Water District
Statement of Revenues, Expenses, and Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2015

	2015			
	Budgeted Amounts			Variance with Final Budget Positive
Revenues:	Original	Final	Actual	(Negative)
Water revenues	$ 1,075,444	$ 1,075,444	$ 1,037,400	$ (38,044)
Other	31,970	31,970	30,848	(1,122)
Total Operating Revenues	1,107,414	1,107,414	1,068,248	(39,166)
Operating Expenses				
Depreciation	387,999	387,999	390,573	(2,574)
Source of supply purchases	286,708	286,708	385,158	(98,450)
Administrative and general expenses	298,316	298,316	305,609	(7,293)
Transmission and distribution expenses	240,259	240,259	171,135	69,124
Payroll and other taxes	15,597	15,597	15,438	159
Customer accounts expenses	-	-	10,619	(10,619)
Water treatment	6,096	6,096	3,955	2,141
Bad debt expense	202	202	762	(560)
Total Operating Expenses	1,235,177	1,235,177	1,283,249	(48,072)
Operating Income (Loss)	(127,763)	(127,763)	(215,001)	(87,238)
Nonoperating Revenues (Expenses)				
Investment income	1,992	1,992	1,844	(148)
Gain (loss) on capital asset disposals	-	-	9,000	9,000
Interest on debt	(141,463)	(141,463)	(137,757)	3,706
Total Nonoperating Revenue (Expenses)	(139,471)	(139,471)	(126,913)	12,558
Net Income before Capital Contributions	(267,234)	(267,234)	(341,914)	(74,680)
Capital Contributions	12,600	12,600	18,935	6,335
Change in Net Position	$ (254,634)	$ (254,634)	(322,979)	$ (68,345)
Net Position-Beginning of Year			7,026,370	
Prior Period Adjustments (See Note 13)			(299,687)	
Net Position-End of Year			$ 6,403,704	

Required Supplementary Information
Caldwell County Water District
Proportionate Share of the Net Pension Liability
County Employee Retirement Systesm of the KRS
For the Year Ended December 31, 2015

		2015
Employer's proportion of the net pension liability (asset)		0.008349%
Employer's proportionate share of the net pension liability (asset)	$	358,949
Employer's covered-employee payroll	$	193,784
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		185.23%
Plan fiduciary net position as a percentage of the total pension liability		65.96%

* The amounts presented for each year were determined as of December 31. Until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

NOTE: This schedule is based on the last measurement date of the net pension liability.

Required Supplementary Information
Schedule of Caldwell County Water District's
Contributions
County Employee Retirement Systesm of the KRS
For the Year Ended December 31, 2015

	2015	2014
Contractually required contribution	$ 44,538	48,420
Contributions in relation to the contractually required contribution	44,538	48,420
Contribution deficiency (excess)	$ -	$ -
Employer's covered-employee payroll	$ 193,784	$ 204,010
Contribution as a percentage of covered-employee payroll	17.67%/ 17.06%	18.89%/ 17.67

* The amounts presented for each year were determined as of December 31. Until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

NOTE: This schedule is determined as of the employer's most recent fiscal year-end.

Caldwell County Water District's proportion of the net pension liability	0.008349%
Caldwell County Water District's proportionate share of the net pension liability	$193,784
Caldwell County Water District's covered-employee payroll	$358,949
Caldwell County Water District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	185.23%
Plan fiduciary net position as a percentage of the total pension liability	65.96%

* The amounts presented were determined as of December of the prior year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information if available.

Purpose is to provide information that serves as a surrogate for the funding progress of the plan.

Notes to the Required Supplementary Information

Notes Related to Schedule of the Caldwell County Water District's Proportionate Share of the Net Pension Liability - County Employee Retirement System of the KRS

Changes of benefit terms: 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 include 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: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 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 memebers 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 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 rate of Retirement, Withdrawal and Diability were updated to more accurately reflect experience

2006: The assumptions were updated as a result of an experience study for the five year period ending June 30, 2005.

2007: Amortization bases have been combined and will amortized over a single 30 year closed period beginning June 30, 2007.

2009: The assumptions were updated as a result of an experience study for the three year period ending June 30, 2008.

2013: The amortization period of the unfunded accrued liability was reset to a closed 30 year period.

Notes to the Required Supplementary Information

Notes to the Schedule of the Caldwell County Water District's Contributions - County Employee Retirement Systems of KRS

Methods 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	5-year smoothed market
Inflation	3.25%
Salary increase	4.0%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

OTHER SUPPLEMENTARY INFORMATION

Caldwell County Water District
Detail Schedule of Operating Expenses
For the Year Ended December 31, 2015

	2015
Depreciation expense	$ 390,573
Water purchases	385,158
General operating expenses	
Salaries & wages	109,753
Retirement	62,254
Employee insurance	43,187
Utilities	23,122
Legal & professional	20,660
Fuel	14,547
Insurance	12,465
Other contract services	5,425
Office supplies	4,439
Uniforms	3,168
License fees	2,390
Dues & subscriptions	2,092
Travel	1,141
Training & education	615
Advertising	253
Miscellaneous	98
Total general operating expenses	305,609
Transmission and distribution expenses	
Salaries & wages	110,889
Repairs & maintenance	24,451
Contract labor - meter reading	16,736
Supplies & materials	13,474
Equipment rent	4,159
Tools and equipment	1,426
Total water expenses	171,135
Payroll and other taxes	15,438
Customer accounts expenses	
Postage	9,346
Credit card fees	917
Collection Fees	356
Total customer accounts expenses	10,619
Water treatment	
Testing	3,660
Chemicals	295
Total water treatment	3,955
Bad debt expense	762
Total operating expenses	$ 1,283,249

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

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
Caldwell County Water District
Princeton, 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* issues by the Comptroller General of the United States, the financial statements of the Caldwell County Water District, as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise the Caldwell County Water District's basic financial statements, and have issued our report thereon dated August 9, 2016.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Caldwell County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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 out audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting finding (2015-1).

140 COMMERCE ST.
PO BOX 909
EDDYVILLE, KY 42038

270-388-4114 OFFICE
270-388-2363 FAX

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

We also noted certain additional matters that we have reported to management of the Caldwell County Water District in a separate letter dated August 9, 2016.

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

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Jessica L Darnell, CPA

Eddyville, Kentucky
August 9, 2016

Caldwell County Water District
Schedule of Findings and Responses
For The Year Ended December 31, 2015

2015-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We agree with the finding and have put in place certain compensating controls to help alleviate exposure. A third party accounting firm assists in bookkeeping, payroll, and preparing monthly reports for Board review.