

MUHLENBERG COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Muhlenberg County Water District
Greenville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Muhlenberg 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. The prior year comparative information has been derived from the District's December 31, 2014 financial statements and, in our report dated November 23, 2015 we expressed an unqualified opinion on the respective financial statements.

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 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muhlenberg County Water District as of December 31, 2015 and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 10 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for 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.

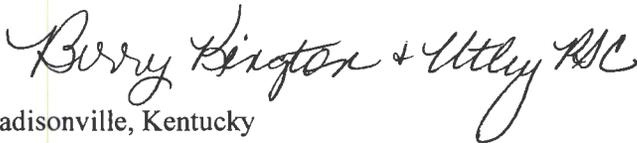
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 7 and schedule of proportionate share of the net pension liability, schedule of pension contributions and schedule of changes in benefits and assumptions on pages 32 - 34 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 October 24, 2016, on our consideration of the Muhlenberg 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* in considering Muhlenberg County Water District's internal control over financial reporting and compliance.



Madisonville, Kentucky
October 24, 2016

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

As management of the Muhlenberg County Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the years ended December 31, 2015 and 2014. For the years ended December 31, 2015 and 2014, the Muhlenberg County Water District has prepared the financial statements based on the guidelines provided in Governmental Accounting Standards Board (GASB) Statement No. 34.

FINANCIAL HIGHLIGHTS

- The total assets and deferred outflows of resources of the Muhlenberg County Water District exceeded its liabilities and deferred inflows of resources at the close of the 2015 year by \$4,814,486 (net position). Of this amount, \$(116,888) represents the unrestricted net position.
- The District's total net position increased by \$229,124. Normal operating and non-operating activities increased the District's net position by \$207,884. Capital contributions and grants of \$21,240 increased net position.
- The District's total long-term bond, notes payable and net pension liability increased by \$174,065 from the prior year. In the statement of net position, long-term bonds are presented inclusive of deferred premium costs totaling \$158,411.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of 1) the basic financial statements, and 2) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Basic financial statements – The basic financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business.

The Statement of Net Position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows. The difference between the total of assets and deferred outflows and the total of liabilities and deferred inflows is 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 Revenues, Expenses, and Changes in Net Position presents information showing how the District's net position changed during the year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., earned but unused compensated absences).

The Statement of Cash Flows includes information on the District’s cash receipts and payments and the changes in cash balances resulting from operating activities, investing activities and financing activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 11 - 31.

DISTRICT FINANCIAL ANALYSIS

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 and deferred outflows exceeded liabilities and deferred inflows by \$4,814,486 as of December 31, 2015.

**MUHLENBERG COUNTY WATER DISTRICT'S
NET POSITION**

<u>Assets and Deferred Outflows of Resources</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 2,199,683	\$ 2,086,740
Capital assets	7,464,475	7,780,280
Total Assets	<u>9,664,158</u>	<u>9,867,020</u>
Deferred outflows of resources	<u>278,487</u>	<u>51,976</u>
Total Assets and Deferred Outflows of Resources	<u>9,942,645</u>	<u>9,918,996</u>
<u>Liabilities and Deferred Inflows of Resources</u>		
Current and other liabilities	866,267	894,203
Long-term liabilities*	<u>4,150,870</u>	<u>4,324,935</u>
Total Liabilities	5,017,137	5,219,138
Deferred inflows of resources	<u>111,021</u>	<u>114,496</u>
Total Liabilities and Deferred Inflows of Resources	<u>5,128,158</u>	<u>5,333,634</u>
<u>Net Position</u>		
Net investment in capital assets	4,191,063	4,066,072
Restricted	740,311	825,230
Unrestricted	<u>(116,888)</u>	<u>(305,940)</u>
Total Net Position (as restated)	<u>\$ 4,814,486</u>	<u>\$ 4,585,362</u>
*Net Pension Liability included	\$ 1,312,459	\$ 1,025,728

The largest portion of the District’s net position (87%) 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 (15%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is \$(115,888).

Analysis of the District's Operations – Overall the District had an increase in net position of \$229,124. Total revenues increased \$40,441 mainly due to a combined increase in metered and other water sales of \$78,984.

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

**MUHLENBERG COUNTY WATER DISTRICT
CHANGES IN NET POSITION**

	<u>2015</u>	<u>2014</u>
Revenues		
Metered water sales	\$ 3,339,653	\$ 3,307,683
Other water sales	284,835	237,821
Other operating revenues	241,939	254,741
Capital grants and contributions	21,240	49,578
Investment income	12,461	9,864
Total Revenues	<u>3,900,128</u>	<u>3,859,687</u>
Expenses		
Source of supply purchases	1,261,192	1,280,561
Administrative and general expenses	912,916	863,540
Transmission and distribution expenses	520,180	570,353
Depreciation and amortization	458,546	439,426
Interest on debt and other	143,466	155,019
Customer accounts expenses	152,092	154,603
Pumping expenses	112,182	118,898
Payroll and other taxes	63,154	69,267
Bad debts	39,643	30,721
Water treatment	23,937	21,074
(Gain) loss on equipment disposal	(16,304)	64,453
Total Expenses	<u>3,671,004</u>	<u>3,767,915</u>
Change in net position	229,124	91,772
Net position - January 1 (as restated)	4,585,362	5,581,838
Cumulative effective of change in accounting principle	-	(1,088,248)
Net position - December 31	<u>\$ 4,814,486</u>	<u>\$ 4,585,362</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

The following provides an explanation of revenues by source that changed significantly from the prior year:

- Water sales increased by \$78,984 or 2% due primarily to an increase in sales to industrial customers and better usage measurement due to a system wide installation of digital meters.
- Capital grants decreased by \$28,338 or 57% due to a decrease in grant activity and new service installations.

The following provides an explanation of expenditures by function that changed significantly from the prior year:

- Source of supply purchases decreased by \$19,371 due to upgrades to the telemetry monitoring system and new leak prevention and detection controls.
- Administrative and general expenses increased by \$49,376 due to an increase in repair and maintenance.
- Transmission and distribution expenses decreased by \$50,173 due to a decrease in operation salaries.

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 \$7,464,475 (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	\$ 35,752	\$ 35,752
Total capital assets, not being depreciated	35,752	35,752
Capital assets, being depreciated:		
Plants and facilities	6,847,116	7,207,250
Buildings	237,197	238,999
Vehicles and equipment	234,952	168,871
Office furniture and equipment	109,458	129,408
Total capital assets, being depreciated	7,428,723	7,744,528
Business-type activities capital assets, net	\$ 7,464,475	\$ 7,780,280

Major capital asset transactions/events during the fiscal year included:

- Purchase of three new vehicles \$94,946.

Additional information on the District's capital assets can be found in Note 4.

Long-term and other debt

At the end of the current year, the Muhlenberg County Water District had total debt of \$3,115,000 before deferred unamortized premium of \$158,411. No new debt was incurred during the year.

	<u>2015</u>	<u>2014</u>
Revenue bonds payable	\$ 3,115,000	\$ 3,530,000
Notes payable	-	13,182
Plus unamortized premiums	<u>158,411</u>	<u>184,208</u>
Total	<u>\$ 3,273,411</u>	<u>\$ 3,727,390</u>

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

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances. If you have any questions about this report or need any additional information, contact the Office Manager, at P.O. Box 348, Greenville, Kentucky 42345 or call (270) 338-1300.

Muhlenberg County Water District
Statements of Net Position
December 31, 2015 and 2014

<u>Assets</u>	<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Cash equivalents		\$ 586,270	\$ 427,419
Customer accounts receivable (less allowance for uncollectible accounts of \$39,643 and \$30,721)		265,197	274,054
Unbilled revenue		266,061	217,269
Other receivables		6,052	6,052
Prepayments		21,563	23,342
Inventory		66,541	62,606
Restricted assets:			
Cash equivalents		807,999	895,998
Investments, at fair value		180,000	180,000
Capital assets, net of depreciation		<u>7,464,475</u>	<u>7,780,280</u>
Total Assets		<u>9,664,158</u>	<u>9,867,020</u>
<u>Deferred Outflows of Resources</u>			
Related to pensions		<u>278,487</u>	<u>51,976</u>
Total Assets and Deferred Outflows		<u>9,942,645</u>	<u>9,918,996</u>
	<u>LIABILITIES</u>		
<u>Liabilities</u>			
Trade accounts payable		142,198	132,366
Accrued liabilities		41,381	60,189
Accrued interest on debt		66,748	74,328
Customers' deposits		180,940	176,440
Short-term debt-line of credit		-	22,698
Long-term debt due in one year		435,000	428,182
Noncurrent liabilities:			
Long-term debt due after one year		2,838,411	3,299,207
Net pension liability		<u>1,312,459</u>	<u>1,025,728</u>
Total Liabilities		<u>5,017,137</u>	<u>5,219,138</u>
<u>Deferred Inflows of Resources</u>			
Related to pensions		<u>111,021</u>	<u>114,496</u>
Total Liabilities and Deferred Inflows		<u>5,128,158</u>	<u>5,333,634</u>
	<u>NET POSITION</u>		
<u>Net Position</u>			
Net investment in capital assets		4,191,063	4,066,072
Restricted for:			
Debt Service, Customer Deposits and Equipment Upgrades		740,311	825,230
Unrestricted		<u>(116,888)</u>	<u>(305,940)</u>
Total Net Position (as restated)		<u>\$ 4,814,486</u>	<u>\$ 4,585,362</u>

See accompanying notes to financial statements.

Muhlenberg County Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Operating Revenue</u>		
Water revenues	\$ 3,624,488	\$ 3,545,504
Other	241,939	254,741
Total Operating Revenues	<u>3,866,427</u>	<u>3,800,245</u>
<u>Operating Expenses</u>		
Source of supply purchases	1,261,192	1,280,561
Administrative and general expenses	912,916	863,540
Transmission and distribution expenses	520,180	570,353
Depreciation	484,342	465,222
Customer accounts expenses	152,092	154,603
Pumping expenses	112,182	118,898
Payroll and other taxes	63,154	69,267
Bad debts	39,643	30,721
Water treatment	23,937	21,074
Total Operating Expenses	<u>3,569,638</u>	<u>3,574,239</u>
<u>Operating Income (Loss)</u>	<u>296,789</u>	<u>226,006</u>
<u>Nonoperating Revenues (Expenses)</u>		
Investment income	12,461	9,864
Gain (loss) on capital asset disposals	16,304	(64,453)
Interest on debt	(141,631)	(151,541)
Debt amortization	25,796	25,796
Other interest expense	(1,835)	(3,478)
Total Nonoperating Revenue (Expenses)	<u>(88,905)</u>	<u>(183,812)</u>
<u>Net Income Before Capital Contributions</u>	207,884	42,194
<u>Capital Contributions and Grants</u>	<u>21,240</u>	<u>49,578</u>
<u>Change in Net Position</u>	229,124	91,772
<u>Net Position-Beginning of Year (as restated)</u>	4,585,362	5,581,838
<u>Cumulative effect of change in accounting principle</u>	<u>-</u>	<u>(1,088,248)</u>
<u>Net Position-End of Year</u>	<u>\$ 4,814,486</u>	<u>\$ 4,585,362</u>

See accompanying notes to financial statements.

Muhlenberg County Water District
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Cash Flows from Operating Activities</u>		
Cash received from customers	\$ 3,826,492	\$ 3,831,130
Cash payments to suppliers for goods and services	(1,864,728)	(1,837,877)
Cash payments to employees for services	(1,170,454)	(1,282,890)
Net Cash Provided (Used) By Operating Activities	<u>791,310</u>	<u>710,363</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Net increase (decrease) in line of credit obligation	-	(4,800)
Principal paid on capital debt	(450,881)	(388,368)
Contributed capital	21,240	21,776
Acquisition of property, plant, and equipment	(168,537)	(1,283,899)
Proceeds from equipment disposal	16,304	25,376
Grants received	-	27,802
Proceeds from capital debt	-	28,000
Interest paid on debt	(151,045)	(159,811)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(732,919)</u>	<u>(1,733,924)</u>
<u>Cash Flows From Investing Activities</u>		
Income received on investments	12,461	9,864
Proceeds from sales and maturities of investment securities	-	6,102
Net Cash Provided (Used) By Investing Activities	<u>12,461</u>	<u>15,966</u>
<u>Net Increase (Decrease) in Cash Equivalents</u>	70,852	(1,007,595)
<u>Cash Equivalents-Beginning of Year</u>	<u>1,323,417</u>	<u>2,331,012</u>
<u>Cash Equivalents-End of Year</u>	<u>\$ 1,394,269</u>	<u>\$ 1,323,417</u>
<u>Reconciliation of Operating Income to Net Cash Provided</u>		
<u>By Operating Activities</u>		
Operating Income (Loss)	\$ 296,789	\$ 226,006
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	484,342	465,222
Provision for uncollectible accounts	8,922	21,718
Change in assets and liabilities		
Decrease (increase) in accounts receivable	(48,857)	9,167
Decrease (increase) in inventory	(3,935)	(4,199)
Decrease (increase) in prepayments	1,779	(535)
Decrease (increase) in deferred outflows	(226,511)	-
Increase (decrease) in accounts payable	9,834	19,741
Increase (decrease) in customer deposits	4,500	2,000
Increase (decrease) in accrued liabilities	(18,809)	(28,757)
Increase (decrease) in deferred inflows	(3,475)	-
Increase (decrease) in net pension liability	286,731	-
Net Cash Provided (Used) By Operating Activities	<u>\$ 791,310</u>	<u>\$ 710,363</u>
<u>Reconciliation of Total Cash</u>		
Current Assets - Cash	586,270	427,419
Restricted Assets - Cash	807,999	895,998
Total Cash	<u>\$ 1,394,269</u>	<u>\$ 1,323,417</u>

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

See accompanying notes to financial statements.

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Muhlenberg County Water District, (the District), was established under the provisions of Chapter 74 of the Kentucky Revised Statutes in July 1962. Actual operations began in December 1967. The Muhlenberg County Judge Executive appoints a three member commission that oversees the District's water system which renders services based on user charges.

The accounting and reporting policies of the Commission relating to the fund included in the accompanying 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 more significant accounting policies of the District are described below:

Reporting Entity

The District, for financial purposes, includes all of the accounts relevant to the operations of the Muhlenberg County Water District owned water system in accordance with generally accepted accounting principles. The District has adhered to the standards set forth in Statement No. 14 as amended by Statement No. 61 of the Governmental Accounting Standards Board in reporting the primary government (including blended component units), discretely presented component units, the reporting entity and related relationships with the District.

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, deferred outflows, liabilities, deferred inflows, 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, deferred outflows, liabilities, and deferred inflows 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 position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued.

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

Expenses are recognized at the time the liability is incurred.

Operating Revenues/Expenses

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations and consist primarily of charges to customers or agencies, cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets

The District adopted a fixed budget for the fiscal year ended December 31, 2015. Flexible budgets prepared for several levels of possible activity are better for proprietary fund planning, control, and evaluation purposes than are fixed budgets. For this reason, actual comparison of the fixed operating budget adopted by the District and the actual operating revenues and expenses are not shown in these financial statements.

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 equivalents used for operations are deposited with Old National Bank. Cash equivalents used for service are deposited with Regions 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 equivalents.

Compensated Absences

The District recognizes a liability for unpaid compensated absences arising from unpaid sick time in accordance with Governmental Accounting Standards Board (GASB) Statement 16. GASB Statement 16 requires employers to accrue a liability for future vacation, sick, and other leave benefits that meet the following conditions:

- 1) The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.

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

- 2) The obligation relates to rights that vest or accumulate.
- 3) Payment of the compensation is probable.
- 4) The amount can be reasonably estimated.

Employees earn vacation leave on their hire date anniversary of each year. Employees hired during the first 6 months of any year will receive 5 days of vacation during the first year of employment and 10 days of vacation during the second year. Persons hired during the last 6 months of any year receive days on a prorated basis during the first year of employment. Vacation days after the second year of employment are earned as 10 days in the third to the fifth year, 15 days in the sixth through tenth year and 20 days after year ten. Vacation leave may not be carried forward from one year to the next. Each year employees receive 12 sick and/or personal days. Sick days may be carried forward into the next year if not used. Payment is made for any unused sick and personal leave upon resignation or retirement. Sick and personal leave benefits are limited to a maximum carryover of 50 days.

Prepaid Items

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

Capital Assets

Capital assets, which include property, plant and equipment, are stated at historical cost. Donated capital assets are stated at their fair market value on the date donated. Proprietary fund capital assets are recorded in the respective funds and depreciated using the straight line method. Repairs and maintenance are recorded as expenses. Estimated useful lives, in years, for depreciable assets are as follows:

Utility System	20 to 65 years
Furniture, Machinery and Equipment	5 to 10 years
Improvements	5 to 10 years
Vehicles	3 to 5 years

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts has been provided based on prior years' loss experiences as a percentage of revenues billed. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the \$40,553 accounts receivable.

Inventory

Inventories are stated at cost using the first-in first-out (FIFO) method. Inventory consists primarily of replacement parts and supplies.

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 3 for information describing restricted net position.

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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 Premiums

Bond premiums on long-term debt are capitalized and amortized to interest expense over the terms of the respective bonds using a method that approximates the effective interest method. Issuance costs are reported as expenses effective for the period ending December 31, 2014.

Net Position

Net position represents the difference between the total of assets and deferred outflows and the total of liabilities and deferred inflows. Net position is classified into three categories. 1). Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent debt proceeds. 2). Restricted net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. 3). Unrestricted net position represents amounts that do not meet the definition of "restricted" or "net investment in capital assets".

Reclassifications

Certain 2014 balances have been reclassified to conform to the 2015 presentation.

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*, which was issued June 2012. The provisions of this pronouncement are effective for periods beginning after June 15, 2014. This pronouncement 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. The adoption of this pronouncement did impact the District's financial position and resulted in a restatement of beginning net position due to this change in accounting principle in the amount of \$1,088,248.

GASB Statement No. 71

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, was issued November 2013. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement amends GASB Statement No. 68. This statement amends paragraph 137 to require recognition of a beginning deferred outflow of

Muhlenberg County Water District
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For the Year Ended December 31, 2015

resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. The adoption of this pronouncement did impact the District's financial position and resulted in a restatement of beginning deferred outflows of \$51,976.

Recent Accounting Pronouncements

As of December 31, 2015, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 72

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The District has not determined the financial impact of this statement.

GASB Statement No. 73

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued in June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The District has not determined the financial impact of this statement.

GASB Statement No. 74

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in June 2015. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 50, *Pension Disclosures*. This Statement becomes effective for the fiscal year beginning July 1, 2016. The District has not determined the financial impact of this statement.

GASB Statement No. 75

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued in June 2015. The objective of this Statement is to address accounting and financial reporting for OPEB that is provided to the employees of state and local governmental

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employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement becomes effective for the fiscal year beginning July 1, 2017. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 76

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. This Statement supersedes Statement No. 55. The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

GASB Statement No. 77

GASB Statement No. 77, *Tax Abatement Disclosures*, was issued in August 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This statement requires disclosure of information necessary to assess how tax abatements affect financial position and results of operations. The District currently has no activity requiring such disclosures.

GASB Statement No. 78

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, was issued in December 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The District's management has not yet determined the effect this statement will have on the financial statements.

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GASB Statement No. 79

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was issued in December 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 80

GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*, was issued in January 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 81

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued in March 2016. The provisions of this Statement are effective for periods beginning after December 15, 2016. This statement provides recognition and measurement guidance for situations in which a government is a beneficiary of a split interest agreement. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 82

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued in March 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This statement clarifies certain issues that have been raised with previous pronouncements. The District's management has not yet determined the effect this statement will have on the financial statements.

Subsequent Events

Date of Management Evaluation

The District has evaluated subsequent events through October 24, 2016, the date which the financial statements were available to be issued.

2. DEPOSITS AND INVESTMENTS

1. Statement of Net Position Cash Presentation

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:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash equivalents	\$ 586,270	\$ -	\$ 586,270
Restricted assets:			
Cash equivalents	807,999	-	807,999
Investments	<u>180,000</u>	<u>-</u>	<u>180,000</u>
Total	<u>\$ 1,574,269</u>	<u>\$ -</u>	<u>\$ 1,574,269</u>

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2. Deposits

Old National Bank

At year-end, the carrying amount of the District's deposits held by Old National Bank were \$1,120,324 and the bank balances were \$1,170,975. Of the bank balances, \$250,000 was covered by federal depository insurance, with \$920,975 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

Regions Bank

At year-end, the carrying amount of the District's deposits held by Regions Bank in the Regions Trust Cash Sweep RTCS III account were \$453,946 and the bank balances were \$453,946. Of the bank balances, \$250,000 was covered by federal depository insurance, with \$203,946 covered by perfected liens on Regions Bank's securities in an amount not less than 105% of the total excess deposits. In the event of a default, the collateral reverts to the Collateral Agent to be distributed to the account owners. The collateral may include United States Government Obligations, United States Senior Debt Agencies and municipal securities with an underlying rating of A or better. The RTCS fund is a permitted account as authorized by the Kentucky Rural Water Finance Program.

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:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of Deposit:		
Old National Bank	1/1/2021	\$ 180,000
Total Investments		<u>\$ 180,000</u>

Muhlenberg County Water District
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3. NET POSITION

Net Investment in Capital Assets

A portion of the net position consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction or improvement of the assets.

Net Investment in Capital Assets

Capital Assets, Net of Depreciation	\$	7,464,475	
Less Revenue Bonds Payable		(3,115,000)	
Less Unamortized Bond Premium		(158,411)	
Total		\$ 4,191,064	

Net Position Restricted for Debt Retirement and Customer Deposits

A portion of the net position is reserved for debt retirement and customer deposits. The reserved portion is calculated as follows:

	<u>Depreciation Fund</u>	<u>Payment/ Escrow Fund</u>	<u>Customer Deposits & Equipment Upgrades</u>	<u>Total</u>
Cash equivalents	\$ 1,704	\$ 573,808	\$ 232,487	\$ 807,999
Investments:				
Certificates of deposit	180,000	-	-	180,000
Totals	\$ 181,704	\$ 573,808	\$ 232,487	\$ 987,999

Debt Requirement Restricted Assets

Depreciation Fund	\$	181,704	
Payment and Escrow Funds		573,808	
Customer Deposit Cash and Equipment Upgrades		232,487	
Total		\$ 987,999	

Current Portion of Debt Requirements and Customer Deposits

Customer Deposits	\$	(180,940)	
Accrued Interest Payable		(66,748)	
Total		(247,688)	

Net Position Restricted for Debt Retirement and Customer Meter Deposits \$ 740,311

Customer Deposits

Customer deposits for utility services are segregated and invested on a short-term basis. At December 31, 2015, customer deposits of \$187,579 (including \$6,639 inactive deposits) were deposited in an interest bearing account in Old National Bank for the purpose of refunding customer deposits.

Equipment Upgrades

At December 31, 2015, the District had \$44,908 of monies restricted for funding of the purchase and repayment of debt related to automated meter readers that were installed during 2014.

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4. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 35,752	\$ -	\$ -	\$ 35,752
Total capital assets, not being depreciated	<u>35,752</u>	<u>-</u>	<u>-</u>	<u>35,752</u>
Capital assets, being depreciated:				
Plants and facilities	13,670,047	26,197	-	13,696,244
Buildings	724,247	19,200	-	743,447
Vehicles and equipment	783,997	114,828	(51,424)	847,401
Office furniture and equipment	278,567	8,312	-	286,879
Total capital assets, being depreciated	<u>15,456,858</u>	<u>168,537</u>	<u>(51,424)</u>	<u>15,573,971</u>
Less accumulated depreciation for:				
Plants and facilities	(6,462,797)	(386,331)	-	(6,849,128)
Buildings	(485,248)	(21,002)	-	(506,250)
Vehicles and equipment	(615,126)	(48,747)	51,424	(612,449)
Office furniture and equipment	(149,159)	(28,262)	-	(177,421)
Total accumulated depreciation	<u>(7,712,330)</u>	<u>(484,342)</u>	<u>51,424</u>	<u>(8,145,248)</u>
Total capital assets, being depreciated, net	<u>7,744,528</u>	<u>(315,805)</u>	<u>-</u>	<u>7,428,723</u>
Business-type activities capital assets, net	<u>\$ 7,780,280</u>	<u>\$ (315,805)</u>	<u>\$ -</u>	<u>\$ 7,464,475</u>

5. EMPLOYEES' RETIREMENT PLAN

County Employees' Retirement System

General Information about the Pension Plan

Plan Description

The District is a participant in the Commonwealth of Kentucky's 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 Statutes (KRS) Section 78.630. KRS Section 61.645 grants the authority to establish and amend the benefit terms to the KRS Board. All local employees participating in the CERS are classified as having either a hazardous or nonhazardous position for the purpose of KRS 61.592. Kentucky Retirement Systems issues a publicly available comprehensive annual financial report containing CERS information that can be obtained at <https://kyret.ky.gov>.

Benefits Provided

Nonhazardous position employees who have attained age 65 and have acquired at least 4 years of credited service or which 1 year must be current service are eligible for an annual retirement benefit, payable monthly for life. The benefit is computed by the number of years of service multiplied by 1.85% then multiplied by the average annual salary during the member's five highest paid fiscal years. Benefits fully vest upon reaching 5 years of credited service, of which 1 year must be current service. Vested members may retire at or after age 55 with 5 years of credited service, of which 1 year must be current service, and receive reduced benefits. CERS also provides death and disability benefits. Benefits are established by Kentucky Statutes.

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If a member's employment is terminated before the member is eligible for any other benefits under CERS, the member shall receive a refund of his/her member contributions with credited interest at 3 percent compounded annually through June 30, 1981, 6 percent thereafter through June 30, 1986, and 4 percent thereafter.

Contributions

Covered employees who began participating prior to September 1, 2008, are required by state statute to contribute 5 percent of their salary to CERS. Covered employees who began participation on or after September 1, 2008 are required by state statute to contribute 6 percent of their salary to CERS. The additional 1 percent 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 percent for those classified as nonhazardous and 8 percent for those classified as hazardous and 1 percent 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 percent 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 contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the KRS Board annually based upon actuarial valuations. For the year ended December 31, 2015, the employer contribution rate was 17.67% from January 1, through June 30, 2015 and 17.06% from July 1, 2015 through December 31, 2015, respectively of members' nonhazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contribution requirements and the amounts contributed to CERS for the year ending December 31, 2015 were \$109,518.

Refunds of contributions

Employees who have terminated service as a contributing 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 percent compounded annually through June 30, 1981; 6 percent thereafter through June 30, 1986; 4 percent 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 percent, for employees participating on or after September 1, 2008 but before January 1, 2014, interest will be credited at a rate of 2.5 percent. For employees participating on or after January 1, 2014, interest will be credited at a minimum rate of 4 percent.

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

At December 31, 2015, the District reported a net pension liability of \$1,312,459 for its

Muhlenberg County Water District
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For the Year Ended December 31, 2015

proportionate share of the CERS net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to CERS relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the District's proportion was 0.030526 percent for nonhazardous classified employees.

For the year ended 2015, the District recognized pension expense of \$168,803. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Types of Deferred Resources</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Net difference between projected & actual earnings on pension plan investments	\$ 94,678	\$ 82,913
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	28,108
Change of Assumptions	132,349	-
Contributions subsequent to the measurement date	40,553	-
Difference between expected & actual experience	<u>10,907</u>	<u>-</u>
Total	<u>\$ 278,487</u>	<u>\$ 111,021</u>

The \$40,553 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016.

Deferred Outflows of Resources

In 2015, \$278,487 was recognized as deferred outflow of resources resulting from a) difference between expected and actual earnings on pension plan investments, b) contributions subsequent to the measurement date, c) changes in assumptions and d) differences between expected and actual experience(actuarial gains and losses). These amount are being amortized as follows:

Difference between projected and actual earnings on pension plan investments

<u>5 Years Amortization Period</u>	<u>Amount Deferred</u>	<u>Amount Amortized</u>	<u>Net Deferral Balance</u>
Recognized in previous years	\$ -	\$ -	\$ -
Recognized in current year	<u>118,348</u>	<u>23,670</u>	<u>94,678</u>
Subtotal	<u>\$ 118,348</u>	<u>\$ 23,670</u>	<u>\$ 94,678</u>

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Change in Assumptions

<u>3.51 Years Amortization Period</u>	<u>Amount Deferred</u>	<u>Amount Amortized</u>	<u>Net Deferral Balance</u>
Recognized in previous years	\$ -	\$ -	\$ -
Recognized in current year	<u>185,077</u>	<u>52,728</u>	<u>132,349</u>
Subtotal	<u>\$ 185,077</u>	<u>\$ 52,728</u>	<u>\$ 132,349</u>

Difference between expected and actual earnings

<u>3.51 Years Amortization Period</u>	<u>Amount Deferred</u>	<u>Amount Amortized</u>	<u>Net Deferral Balance</u>
Recognized in previous years	\$ -	\$ -	\$ -
Recognized in current year	<u>15,253</u>	<u>4,346</u>	<u>10,907</u>
Subtotal	<u>\$ 15,253</u>	<u>\$ 4,346</u>	<u>\$ 10,907</u>

Contributions Subsequent to measurement date

<u>0 Years Amortization Period</u>	<u>Amount Deferred</u>	<u>Amount Amortized</u>	<u>Net Deferral Balance</u>
Recognized in previous years	\$ -	\$ -	\$ -
Recognized in current year	<u>40,553</u>	<u>-</u>	<u>40,553</u>
Subtotal	<u>\$ 40,553</u>	<u>\$ -</u>	<u>\$ 40,553</u>

Future amortization of deferred outflows related to the difference between projected and actual earnings on pension plan investments will be recognized as an offset to pension expense as follows:

<u>Years Ending</u>	<u>5 year Amortization</u>
December 31, 2016	\$ 23,670
December 31, 2017	23,670
December 31, 2018	23,669
December 31, 2019	<u>23,669</u>
Total	<u>\$ 94,678</u>

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Future amortization of deferred outflows related to the change in assumptions (\$132,349) and the difference between expected and actual earnings (\$10,907) will be recognized as an offset to pension expense as follows:

Years Ending	3.51 year Amortization
December 31, 2016	\$ 57,074
December 31, 2017	57,074
December 31, 2018	29,108
Total	\$ 143,256

Deferred Inflows of Resources

In 2014, the District recognized \$143,122 as a deferred inflow of resources resulting from the difference between expected and actual earnings on pension plan investments and was amortized over a closed five year period at an annual rate of \$28,624.

In 2015, the District recognized \$39,307 as a deferred inflow of resources resulting from the changes in proportion and differences between employer contributions and proportionate share of contributions. This will be amortized over 3.51 years.

Difference between projected and actual earnings on pension plan investments

5 Years Amortization Period	Amount Deferred	Amount Amortized	Net Deferral Balance
Recognized in previous years	\$ 143,122	\$ 60,209	\$ 82,913
Recognized in current year	-	-	-
Subtotal	\$ 143,122	60,209	82,913

Changes in Proportion and differences between employer contributions and proportionate share of contributions

3.51 Years Amortization Period	Amount Deferred	Amount Amortized	Net Deferral Balance
Recognized in previous years	\$ -	\$ -	\$ -
Recognized in current year	39,307	11,199	28,108
Subtotal	\$ 39,307	11,199	28,108

Future amortization of deferred inflows related to the difference between projected and actual earnings on pension plan investments will be recognized as an offset to pension expense as follows:

Years Ending	5 year Amortization
December 31, 2016	\$ 27,638
December 31, 2017	27,638
December 31, 2018	27,637
Total	\$ 82,913

Future amortization of deferred inflows related to the difference in changes in proportion and the

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differences between employer contributions and proportionate share of contributions will be recognized as an offset to pension expense as follows:

Years Ending	3.51 year Amortization
December 31, 2016	\$ 11,199
December 31, 2017	11,199
December 31, 2018	5,710
Total	\$ 28,108

Actuarial assumptions

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

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

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table for all retired employees and beneficiaries projected with Scale BB to 2013. The RP-2000 Combined Mortality Table set back 4 years is used for the period after disability retirement.

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 the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major class are

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summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Nominal 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 %	5.25 %
Cash Equivalent	2 %	(0.25)%
Total	<u>100 %</u>	

Discount rate

The discount rate used to measure the total pension liability for the plan was 7.50 percent for both nonhazardous and hazardous. 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 long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension 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.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability calculated using the discount rate of percent, as well as what the plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate (7.50 percent):

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
<i>Nonhazardous</i>			
District's proportionate share of the net pension liability	\$ 1,675,535	\$ 1,312,459	\$ 1,001,543

Payables to the pension plan

At December 31, 2015, the District had paid its contractually required employee and employer contributions primarily for the month ended December 31, 2015, within prescribed time limits.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Retirement Systems and can be found at <https://kyret.ky.gov>.

Post-retirement Healthcare Benefits

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

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides post-retirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for members 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 portion of the aggregate premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2015, (the date of the latest available information), insurance premiums withheld from benefit payments to members of the CERS approximated \$22,600,000. As of June 30, 2015, the Fund had 108,952 retirees and beneficiaries for whom benefits were available. The allocation of insurance premiums paid by the Fund and amounts withheld from member benefits is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

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

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating 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 (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. 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 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 employers' 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 of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution 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 KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

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

6. DEBT OBLIGATIONS
Revenue Bonds Payable

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2015</u>	<u>Due in One Year</u>
Waterworks Refunding Bonds				
Series 2007-D	4.175%-4.55%	2027	1,320,000	85,000
Waterworks Refunding Bonds				
Series 2013-B	2.30%-4.30%	2021	850,000	245,000
Waterworks Construction Bonds				
Series 2013-C	4.30%-4.80%	2023	<u>945,000</u>	<u>105,000</u>
Total			3,115,000	<u>\$ 435,000</u>
Less current portion			(435,000)	
Plus unamortized bond premium on long-term debt			<u>158,411</u>	
Long-term portion			<u>\$ 2,838,411</u>	

Series 2007-D

A bond resolution dated July 1, 2007, authorized issuance of \$1,895,000 of refunding revenue bonds maturing in annual installments through 2027. Interest is paid semi-annually on January 1, and July 1, from 4.175% to 4.55% per annum and principal is payable annually on July 1.

Series 2013-B

A bond resolution dated March 27, 2013, authorized issuance of \$1,255,000 of refunding revenue bonds maturing in annual installments through 2021. Interest is paid semi-annually on January 1, and July 1, from 2.300% to 4.300% per annum and principal is payable annually on January 1.

Series 2013-C

A bond resolution dated March 27, 2013, authorized issuance of \$1,150,000 of refunding revenue bonds maturing in annual installments through 2023. Interest is paid semi-annually on January 1, and July 1, from 2.300% to 4.800% per annum and principal is payable annually on January 1.

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

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest & Fees</u>	<u>Total</u>
2016	\$ 435,000	\$ 127,720	\$ 562,720
2017	395,000	111,733	506,733
2018	345,000	95,930	440,930
2019	345,000	81,203	426,203
2020	290,000	67,425	357,425
2021	295,000	54,830	349,830
2022	240,000	43,173	283,173
2023	250,000	32,133	282,133
2024	120,000	23,660	143,660
2025	125,000	18,200	143,200
2026	135,000	12,512	147,512
2027	140,000	6,370	146,370
Total	<u>\$ 3,115,000</u>	<u>\$ 674,889</u>	<u>\$ 3,789,889</u>

First National Bank Obligations

Line of Credit

On August 19, 2010, the District obligated itself for a line of credit with First National Bank in the amount of \$70,000. The loan bears interest at 3.75% and is unsecured with a maturity date of August 25, 2015. The outstanding principal balance as of December 31, 2015 and 2014 was \$0 and \$22,698, respectively. Total interest incurred as of December 31, 2015 and 2014 was \$197 and \$688 respectively.

First Security Bank Obligations

Operating Loan

On April 17, 2014, the District borrowed \$28,000 for the purpose of funding a 2014 lump sum payment to the employee health savings obligations. The unsecured loan did not state specific repayment terms. The loan bears interest at 3.25%. The loan was repaid during the year ending December 31, 2015. Total interest incurred as of December 31, 2015 and 2014, was \$667 and \$701.

Changes in Business-Type Activities Debt

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

	<u>Balance 12/31/2014</u>	<u>Loans Incurred</u>	<u>Principal Payments</u>	<u>Balance 12/31/2015</u>	<u>Due Within One Year</u>
<u>Business-Type Activities:</u>					
Revenue Bonds Payable	\$ 3,530,000	\$ -	\$ 415,000	\$ 3,115,000	\$ 435,000
First National Bank	13,182	-	13,182	-	-
Total Business-Type Activities	<u>\$ 3,543,182</u>	<u>\$ -</u>	<u>\$ 428,182</u>	3,115,000	<u>\$ 435,000</u>
Unamortized bond premium				158,411	
Long-term debt due in one year				<u>(435,000)</u>	
Long-term debt due after one year				<u>\$ 2,838,411</u>	

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

7. **COMMITMENTS**

Purchase Contracts

Central City Municipal Water and Sewer

On June 20, 2011, the District entered into a new agreement with the City of Central City, Kentucky to continue to purchase treated water from the City's new water treatment plant. The contract became effective April 1, 2012 and is for a period of 50 years and states that the initial rate will be \$2.63 per 1,000 gallons of water purchased. The District purchased \$1,277,261 and \$1,145,497 from Central City during the year ended December 31, 2015 and 2014, respectively.

Todd County Water District

On May 1, 2006, the District entered into a long-term contract with Todd County Water District for the purchase of treated water. The contract for water is for a period of 25 years and calls for water sales not to exceed 800,000 gallons per month at a rate of \$4.85 per 1,000 gallons. Water rate increases imposed by Todd County Water District will be passed onto the District as they occur. The District purchased \$2,772 and \$3,094 from Todd County Water District during the year ended December 31, 2015 and 2014, respectively.

Wholesale Contract

The District sells water on a wholesale basis to the City of Drakesboro, Kentucky. The original October 1967 contract was amended in May 1997, to extend water sales to October 2047. The District has the authority by the Public Service Commission of Kentucky, to periodically adjust the rates charged to the City of Drakesboro. Total sales to the City of Drakesboro during the year ended December 31, 2015 and 2014 were \$92,117 and \$89,310, respectively.

8. **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.

9. **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.

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

10. CHANGE IN ACCOUNTING PRINCIPLE

The net position of the business-type activities were restated to reflect implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement 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.

Net Position at December 31, 2014 is restated as follows:

Previously reported net position at December 31, 2014	\$ 5,673,610
Net pension liability	(1,025,728)
Deferred outflows of resources related to pensions	51,976
Deferred inflows of resources related to pensions	<u>(114,496)</u>
Net Position as of December 31, 2015	\$ <u><u>4,585,362</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

Muhlenberg County Water District
County Employees Retirement System
Schedule of District's Proportionate Share of the Net Pension Liability
Last Two Years(1)

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<u>Nonhazardous</u>		
District's proportion of the net pension liability (asset)	0.030526 %	0.031616 %
District's proportion of the net pension liability (asset)	\$ 1,312,459	\$ 1,025,728
District's covered employee payroll	\$ 631,069	\$ 672,959
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	207.97 %	152.42 %
Plan fiduciary net position as a percentage of the total pension liability (2)	59.97 %	66.80 %

(1) The amounts presented for the fiscal year were determined as of the prior fiscal year ending June 30. District payroll is reported for its' covered employee on calendar years ending December 31.

(2) This will be the same percentage for all participant employers in the CERS plan.

Muhlenberg County Water District
County Employees Retirement System
Schedule of District's Pension Contributions
Last Two Years

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<u>Nonhazardous</u>		
Contractually required contributions	\$ 79,731	\$ 100,144
Contributions in relation to the contractually required contributions	<u>79,731</u>	<u>100,144</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 631,069	\$ 672,959
Contributions as a percentage of covered employee payroll	12.63 %	14.88 %

Notes:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the District will present information as it becomes available.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of CERS. The above contributions only include those allocated directly to the CERS pension fund.

Muhlenberg County Water District
County Employees Retirement System
Schedule of Changes in Benefits and Assumptions
For the Year Ended December 31, 2015

Changes of Benefit Terms:

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

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

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

Changes of Assumptions:

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

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

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10 year trend is compiled, the District will present information for those years for which information is available.



**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**

To the Board of Commissioners
Muhlenberg County Water District
Greenville, Kentucky

We have audited 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, the financial statements of the Muhlenberg 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 Muhlenberg County Water District's basic financial statements, and have issued our report thereon dated October 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Muhlenberg 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 Muhlenberg County Water 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. (2015-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Muhlenberg 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 or other matters that are required to be reported under *Government Auditing Standards*.

Muhlenberg County Water District's Response to Findings

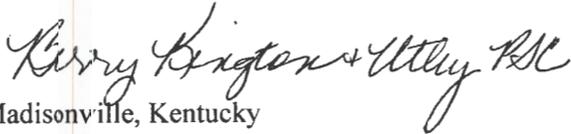
Muhlenberg County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Muhlenberg County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, 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.

We also noted certain matters that we have reported to management of the Muhlenberg County Water District, in a separate letter dated October 24, 2016.

This report is intended solely for the information of the District commission and management. However, this report is a matter of public record and its distribution is not limited.



Madisonville, Kentucky
October 24, 2016

Muhlenberg 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 concur with the finding.