

WEBSTER COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED
DECEMBER 31, 2015**

WEBSTER COUNTY WATER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Webster County Water District
Dixon, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information of Webster 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 District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information

of the Webster 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.

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 through 6 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. I 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 methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Accounting principles generally accepted in the United States of America require that the pension schedules on pages 20-21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated July 6, 2016 on my consideration of the Webster County Water District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Webster County Water District's internal control over financial reporting and compliance.



Providence, Kentucky
July 6, 2016

**WEBSTER COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

As management of the Webster 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 fiscal year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

Financial Highlights

- LED Lighting in office
- Division of Water Inspection
- Rebuilt one pump motor and new concrete pad at Mt Pleasant Pump Station
- Roof Replacement at Mt Pleasant Pump Station
- Roof Replacement at Office and new gutters at office and office shop
- Extended 1720' of 6" line on Hwy 132 to Sebree
- Purchased new excavator for repairs and long services
- Purchased new boring machine for long services
- Mt. Pleasant, Vandersburg and Oak Heights tanks inspected
- 50th anniversary observed
- Ran 700' of 3" line on Gower Road
- Ran 600' of 3" line on Stagecoach Road
- Ran 1880' of 3" line on Beckley Osborne Road
- Ran 400' of 3" line on Watkins School Road
- Flushed whole system in fall

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 three components: 1) government-wide financial statements, 2) fund financial statements and, 3) notes to the financial statements. This report also contains other supplementary information to the basic financial statements themselves.

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

The Statement of Net Position presents information on all of 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 Activities presents information showing how the District's net position changed during the fiscal 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. These revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objections. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories – governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District does not maintain governmental funds.

Proprietary Fund – The District maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for its water operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 6-9 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Net position may service over time as a useful indicator of the government's financial position. In the case of the Webster County Water District, assets exceeded liabilities by \$13,096,448 as of December 31, 2015.

The District's net position of \$13,096,448 reflect its investment in capital assets (e.g. land, buildings, equipment and infrastructure) less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the District's investment in capital assets is 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.

Net Position for the Period Ending December 31, 2015

	<u>Total</u>
Current assets	\$ 467,810
Noncurrent assets	13,779,586
Deferred outflows of resources	<u>133,523</u>
Total assets	<u>14,380,919</u>
Current liabilities	153,037
Noncurrent liabilities	<u>1,131,434</u>
Total liabilities	<u>1,284,471</u>
Contributed capital	12,216,589
Unrestricted	<u>879,859</u>
Total net position	<u>\$ 13,096,448</u>

The District reported positive balances in Net Position for business-type activities.

Operating Revenue	
Charges for Services	\$ 1,791,399
Other Income	20,902
Total Operating Revenue	<u>1,812,301</u>
Operating Expenses	
Operation maintenance and Administrative expenses	1,197,314
Depreciation	565,517
Total Operating Expenses	<u>1,762,831</u>
Operating Income	<u>49,470</u>
Non-operating Revenue (expense)	
Interest and Dividend Income	4,184
Interest Expense	(18,295)
Tap Fees	30,000
Total Non-Operating Revenue (expense)	<u>15,889</u>
Change in Net Position	<u>\$ 65,359</u>

Capital Assets

The Webster County Water District's investment in capital assets for its business-type activities as of December 31, 2015, amounts to (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, equipment, vehicles, and infrastructure. The summary of capital assets is as follows:

	<u>Balances January 1</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances December 31</u>
Business-type Activities:				
Land and land rights	\$ 122,021	\$ -	\$ -	\$ 122,021
Structures and improvements	7,400,976	7,700	-	7,408,676
Supply mains	368,667	-	-	368,667
Pumping equipment	231,604	23,530	-	255,134
Water treatment equipment	102,507	-	-	102,507
Distribution reservoirs	2,473,068	-	-	2,473,068
Transmission mains	10,115,297	41,890	-	10,157,187
Meters and installation	632,214	33,419	-	665,633
Hydrants	63,401	-	-	63,401
Other plant equipment	21,643	48,216	-	69,859
Office equipment	89,259	9,934	-	99,193
Transportation equipment	189,826	21,478	-	211,304
Tools and shop equipment	18,470	-	-	18,470
Lab equipment	13,394	7,646	-	21,040
Power operated equipment	29,879	-	-	29,879
Communications equipment	42,784	-	-	42,784
Miscellaneous equipment	3,214	-	-	3,214
	<u>21,918,224</u>	<u>193,813</u>	<u>-</u>	<u>22,112,037</u>
Total capital assets	21,918,224	193,813	-	22,112,037
Less accumulated depreciation	<u>(9,390,671)</u>	<u>(565,517)</u>	<u>-</u>	<u>(9,956,188)</u>
Business-type activities:				
Capital assets, net	<u>\$ 12,527,553</u>	<u>\$ (371,704)</u>	<u>\$ -</u>	<u>\$ 12,155,849</u>

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 questions about this report or need additional information, contact the Webster County Water District, Attn: Paul Lashbrooke, Superintendent, at P. O. Box 320, Dixon, Kentucky, call 270-639-9010.

WEBSTER COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2015

	2015
Assets	
Current Assets	
Cash and cash equivalents	\$ 186,025
Accounts receivable	150,083
Inventories	113,668
Prepaid expenses	18,034
Total current assets	467,810
Noncurrent Assets	
Restricted cash	1,623,652
Capital assets, net of depreciation	12,155,849
Utility deposits	85
Total noncurrent assets	13,779,586
Deferred outflows of resources	
Deferred charges - pensions	133,523
Total deferred outflows of resources	133,523
Total assets	14,380,919
Liabilities	
Current liabilities	
Accounts Payable	21,566
Accrued expenses	30,812
Customer meter deposits	17,488
Current portion of bonds payable	83,171
Total current liabilities	153,037
Noncurrent liabilities	
Noncurrent portion of bond payable	354,472
Pension obligations	776,962
Total noncurrent liabilities	1,131,434
Total liabilities	1,284,471
Net Position	
Contributed capital	12,216,601
Retained earnings	879,847
Total net position	\$ 13,096,448

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

WEBSTER COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
December 31, 2015

Operating Revenues:

Charges for services	\$ 1,791,399
Other income	<u>20,902</u>
Total operating revenues	<u><u>1,812,301</u></u>

Operating Expenses:

Salaries	458,811
Depreciation	565,517
Materials, supplies, and repairs	71,619
Utilities	155,004
Employee benefits	201,790
Rental of equipment	912
Transportation	26,403
Contract service	16,735
Insurance	33,587
Taxes	33,375
Chemicals	150,142
Advertising	2,579
Miscellaneous	42,844
PSC assessment	<u>3,513</u>
Total operating expenses	<u><u>1,762,831</u></u>

Operating Income 49,470

Non-operating Revenue (Expenses):

Interest and dividend income	4,184
Interest expense	(18,295)
Tap fees	<u>30,000</u>
Total non-operating revenue (expenses)	<u><u>15,889</u></u>

Change in net position 65,359

Total net position, beginning (restated) 13,031,089

Total net position, ending \$ 13,096,448

The accompanying notes are an integral part of these financial statements

**WEBSTER COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

Cash Flows from Operating Activities

Receipts from customers	\$ 1,741,399
Payments to suppliers	(751,380)
Payments to employees	(458,811)
Other receipts (payments)	<u>70,902</u>
Net cash provided by operating activities	<u>602,110</u>

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(193,813)
Principal paid on bonds payable	(240,065)
Interest paid on bonds payable	(18,295)
Capital contributions	<u>30,000</u>
Net cash (used) in capital and related financing activities	<u>(422,173)</u>

Cash Flows from Investing Activities

Interest and dividend income	<u>4,184</u>
------------------------------	--------------

Net increase in cash and cash equivalents 184,121

Balances, beginning of year 1,625,556

Balances, ending of year \$ 1,809,677

Reconciliation of operating income to net cash provided by (used in) operating activities

Operating income \$ 49,470

Adjustments to reconcile operating income to net cash provided by (used in) operating activities

Depreciation 565,517

Changes in assets and liabilities:

(Increase) decrease in accounts receivable	8,900
(Increase) decrease in inventory	(14,396)
(Increase) decrease in prepaid expenses	(1,675)
Increase (decrease) in accounts payable	(12,130)
Increase (decrease) in accrued expenses	9,397
Increase (decrease) in customer meter deposits	(6,323)
Increase (decrease) in deferred outflows - Pension	(133,523)
Increase (decrease) in pension obligation	<u>136,873</u>

Net cash provided by operating activities \$ 602,110

The accompanying notes are an integral part of these financial statements

**WEBSTER COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity.

The Webster County Water District (the "District") was created on December 13, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located in Dixon, Kentucky. The District is comprised of five commissioners who are nominated and approved by the Webster County Fiscal Court. The District is a water utility which operates in the rural section of Webster County, Kentucky, and its sales are primarily to residential customers.

B. Basis of Presentation.

The government-wide financial statements (the statement of net position and the statement of activities) report information on all activities of the District. The government-wide financial statements are divided into two types: governmental activities and business-type activities. The District only has business-type activities due to its reliance to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expense of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers as applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliances.

Governmental funds are those funds through which most governmental functions typically are financial. The District does not maintain governmental funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. Operating expenses for the proprietary funds include the costs of operational and contracted services, revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. 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 government-wide statements and the fund financial statements for the proprietary funds are reported using the economic resources measurement focus and the accrual basis

of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned including unbilled water service which is accrued. Expenses are recognized at the time the liability is incurred.

D. **Regulation**

The Water District's utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the Commonwealth of Kentucky, Public Service Commission. Webster County Water District's accounting policies recognize the financial affects of the rate making and accounting practices and policies of the Public Service Commission.

E. **Cash and Investments**

For the purpose of the proprietary fund of the Webster County Water District, cash on hand, cash in bank and certificates of deposits are considered to be cash and cash equivalents.

Unrestricted cash is available to be expended for normal operating costs. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and construction projects.

State statute requires that all deposits and investments in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The District's deposits, including certificates of deposit, were fully collateralized as required by state statutes at December 31, 2015

F. **Inventory**

Inventory is stated at the lower of cost or market. Cost is determined primarily by the first in first-out method.

G. **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the business-type activities column in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance is recorded as expenses. Renewals and betterments are capitalized. Depreciation is provided in the proprietary fund in an amount sufficient to relate the cost of the depreciable assets, to operations over their estimated lives on the straight-line basis. The service lives range from 3 to 50 years.

Note 2. Capital Assets

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

	Balances January <u>1</u>	<u>Additions</u>	<u>Retirements</u>	Balances <u>December 31</u>
Business-type Activities:				
Land and land rights	\$ 122,021	\$ -	-	\$ 122,021
Structures and improvements	7,400,976	7,700	-	7,408,676
Supply mains	368,667	-	-	368,667
Pumping equipment	231,604	23,530	-	255,134
Water treatment equipment	102,507	-	-	102,507
Distribution reservoirs	2,473,068	-	-	2,473,068
Transmission mains	10,115,297	41,890	-	10,157,187
Meters and installation	632,214	33,419	-	665,633
Hydrants	63,401	-	-	63,401
Other plant equipment	21,643	48,216	-	69,859
Office equipment	89,259	9,934	-	99,193
Transportation equipment	189,826	21,478	-	211,304
Tools and shop equipment	18,470	-	-	18,470
Lab equipment	13,394	7,646	-	21,040
Power operated equipment	29,879	-	-	29,879
Communications equipment	42,784	-	-	42,784
Miscellaneous equipment	3,214	-	-	3,214
	<u>21,918,224</u>	<u>193,813</u>	<u>-</u>	<u>22,112,037</u>
Total capital assets	21,918,224	193,813	-	22,112,037
Less accumulated depreciation	<u>(9,390,671)</u>	<u>(565,517)</u>	<u>-</u>	<u>(9,956,188)</u>
Business-type Activities:				
Capital assets, net	<u>\$ 12,527,553</u>	<u>\$ (371,704)</u>	<u>\$ -</u>	<u>\$ 12,155,849</u>

Note 3. Noncurrent Liabilities

At December 31, 2015, noncurrent liabilities consisted of the following:

	<u>Business-type</u>
Kentucky Infrastructure Authority (KIA) Fund B, Infrastructure Revolving Fund, 1995 J loan, dated January 15, 1997. Interest is payable semi-annually on June 1 and December 1. The interest rate over the term of maturity is 2.3%. The loan is due in annual installments through the year 2016.	\$ 38,298
Kentucky Infrastructure Authority (KIA) Fund B, Infrastructure Revolving Fund, C-98-03 loan, dated January 13, 2000. Interest is payable semi-annually on June 1 and December 1. The interest rate over the term of maturity is 3%. The loan term is 30 years with a final maturity in 2032.	<u>399,345</u>
	437,643
Less amount due within one year	<u>83,171</u>
Amount due in more than one year	<u><u>\$ 354,472</u></u>

The following represents future bond and long-term not maturities:

<u>Year ending December 31</u>	<u>Amount</u>
2016	\$ 83,171
2017	46,229
2018	47,627
2019	49,066
2020	50,549
Thereafter	<u>161,001</u>
	<u><u>\$ 437,643</u></u>

Note 4. Deferred inflows and outflows of resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents the consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in the category. These are the deferred pension contributions, and pension related deferred components reported in the statements of net position.

A deferred pension contribution results from pension contributions subsequent to the measurement date of the pension plan. This amount is deferred and recognized as a component of the change in pension plan liability in the next measurement period. Pension related deferred components include difference between expected and actual experience; the difference between projected and actuarial earnings on pension plan investments results from actual investment earnings above or below actuarial projected earnings; changes in assumption; and changed in proportion and differences between employer contribution and proportionate share of contributions. This pension related items are deferred and amortized over 5 years as a component of the pension expense.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents and acquisition of net position that applies to a future period(s) which will not be recognized as an inflow of resources (revenue) until that time. The District has no items related to the District's pension plans that qualifies for reporting in the category. A difference between projected and actuarial projected earnings on pension plan investments results from actual investment earnings above or below actuarial projected earnings. This item, difference between projected and actuarial earnings on pension plan investments, is deferred and recognized in future periods as a component of the pension expense.

Note 5. Employee Retirement System

The District provides retirement benefits to its employees through a multi-employer public employee retirement fund administered by the Kentucky County Employees Retirements System (CERS). Information regarding this plan as follows:

County Employees' Retirement System

Plan Description – The 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 System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky retirement system issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, non-hazardous and hazardous employees are grouped into three tiers, based on hire date:

	Non-hazardous members:	
Tier 1	Participation date	Prior to Septmeber1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	Minimum 5 years of service and 55 years old
		Minimum 25 years of service and any age

Note 5. Employee Retirement System (cont)

Tier 2	Participation date	Prior to Septmeber1, 2008 to December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Minimum 10 years of service and 60
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Not Available

Hazardous members:

Tier 1	Participation date	Prior to Septmeber1, 2008
	Unreduced retirement	20 years of service of any age
	Reduced retirement	Minimum 5 years of service and 55 years old Minimum 15 years of service and 50 years old
Tier 2	Participation date	Prior to Septmeber1, 2008 to December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 60 years old 25 years of service and any age
	Reduced retirement	Minimum 15 years of service and 50 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 60 years old 25 years of service and any age
	Reduced retirement	Not Available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirements is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefits after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement and death prior to retirement. Death benefits are \$5000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay to 40% for all dependent children Five years' service is required for non-service related disability benefits .

Plan funding – State statute requires active members to contribute % of creditable compensation based on the tier:

	<u>Non-hazardous</u>
	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance

Employers contribute at the rate determined by the CERS Board to be necessary for the actuarial soundness of the system, as required by KRS 61.565 and 61.752. The District's required contribution rate for non-hazardous employees was 18.89% for the period January 1, 2014 to June 30, 2014; 17.67% for the period July 1, 2014 to June 30, 2015; and 17.06% for the period July 1, 2015 to December 31, 2015

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 for its proportionate share of the net pension liability for CERS. The amount recognized by the district as its proportionate share of the net pension liability that was associated with the District was as follows:

2015

CERS net pension liability with the District \$ 776,962

The net pension liability for the plan 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 of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employs and former employees relative to the total liability of the districts as determined by the actuary. At June 30, 2015, the District's non-hazardous proportion was 0.01807%.

For the years ended December 31, 2015, the District recognized pension expense of \$76,496, respective related to CERS pension plans. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to the CERS pension plan from the following sources:

	<u>2015</u>	
	Deferred Outflows of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$6,457	
Changes om assumptions	78,348	
Net diffemce between projected and actual earnings on pension plan investmenets	6,965	
Changes in proportion and differences between District contributions and proportinate share of contributions	2,940	
District contributions subsequent to the measurement date	<u>38,813</u>	
Total		<u>\$133,523</u>

The District reported \$38,813 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the plan year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pension will be recognized in pension expense as follows:

	<u>Plan Year Ending June 30</u>	
		<u>Non - Hazardous</u>
2016	\$	7,763
2017	\$	7,763
2018	\$	7,763
2019	\$	7,763
2020	\$	7,761

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:

	<u>2015</u>
Inflation	3.25%
Projected salary increases	4.00%
Investment rate of return, net of Investment expense and inflation	7.50%

For CERS plan year ending June 30, 2015, 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 RP-000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males). The actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, outlined in a report 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 assumption developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in getting 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 asset class of June 30, 2015, as provided by CER's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Combined Equity	44.00%	5.40%
Combined Fixed Income	19.00%	1.50%
Real Return (Diversified		
Inflation Strategies	10.00%	3.50%
Private Equity	10.00%	8.50%
Real Estate	5.00%	4.50%
Absolute Return (Diversified		
Hedge Funds)	10.00%	4.25%
Cash Equivalent	2.00%	-0.25%
Total	<u>100.00%</u>	

Discount rate- For the plan years ended June 30, 2015 the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that

contributions from plan employees and employers will be made a statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50% in 2015. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net liability to changes in the discount rate – The following table presents the net pension liability of the System, calculated using the discount rates selected by the pension system, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point-higher than the current rate:

For plan year ended June 30, 2015	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
Non-Hazardous' proportionate share of net pension liability	\$ 991,840	\$ 776,962	\$ 592,868

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report of the CERS.

Note 6. Contributions in Aid of Construction

	<u>Local Government</u>	<u>Federal and State</u>	<u>Customer</u>	<u>Total</u>
Balance as of December 31, 2014	\$ 1,852,990	\$ 8,891,081	\$ 1,442,518	\$ 12,186,589
Contributed Capital	-	-	30,000	30,000
Balance as of December 31, 2015	<u>\$ 1,852,990</u>	<u>\$ 8,891,081</u>	<u>\$ 1,472,518</u>	<u>\$ 12,216,589</u>

Note 7. Income Tax Statuses

The Water District is exempt from federal and state income taxes and, accordingly, no provision for such taxes have been made.

Note 8. Contingencies

There are several litigation proceedings in which the District is involved. In the opinion of counsel, any liability which the District may have under these proceedings is covered by insurance. The results of litigation proceedings cannot be predicted with certainty, however, in the opinion of the District’s general counsel, the District does not have a potential liability in connection with these other proceedings which would have an adverse material effect on the financial position of the District.

Note 9. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchased commercial insurance for all risks of loss. Settled claim have not exceed this commercial coverage in any of the past three fiscal years.

Note 10. Restatement of Net Position for New Pronouncement

Effective January 1, 2015, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68 "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the System, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the District presents one year financial information, the beginning net pension as of January 1, 2015 was adjusted to reflect the retrospective application. The adjustment resulted in \$634,439 reduction in beginning net position on the Statement of Activities and an increase of \$38,813 of deferred outflows of resources – District contributions subsequent to the measurement date. Beginning net position restatement by type is as follows:

	<u>Business Type Activites</u>
Beginning net position - as previously stated	\$ 13,674,528
GASB 68 implementation	<u>(643,439)</u>
Beginning net position -as restated	<u>\$ 13,031,089</u>

Note 11. – SUBSEQUENT EVENT

Management has evaluated subsequent events through July 6, 2016, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

**WEBSTER COUNTY WATER DISTRICT
 REQUIRED SUPPLEMENTAL INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TO COUNTY EMPLOYEE'S RETIREMENT SYSTEM
 LAST FISCAL YEAR**

<u>Year Ended December 31</u>	<u>District's proportion of the net pension liability</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered employee payroll</u>	<u>District's share of the net pension liability (asset) as a percentage of its cover employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
	<u>CERS Nonhazardous</u>				
2015	0.00807%	\$ 776,962	\$ 440,767	176.27499%	59.9684%

- The amounts presented were determined as of the measurement date June 30 of the current year.
- Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**WEBSTER COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
TO COUNTY EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR**

<u>Year Ended December 31</u>	<u>Contractually required contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<u>CERS Nonhazardous</u>					
2015	\$ 76,496	\$ 76,496	-	\$ 440,767	17.3552%

* The amounts presented were determined as of the measurement date June 30 of the current year.

*Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**Notes to Required Supplementary Information
For the Year Ended December 31, 2015**

Change of Benefit Terms:

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

Changes of assumptions:

The assumed investment rate of return was 7.50%

The assumed rate of inflation was 3.25%

The assumed rate of wage inflation was 0.75%

Payroll growth assumption was 4.00%

The assumptions were updated as of result of an experience study for the five year period ending June 30, 2013.

The amortization period of the unfunded accrued liability was reset to a closed 30 year period for the year ended June 30, 2013.

The mortality tables used was updated to RP-2000 Combined Mortality Table projected with Scale BB to 2013.

OTHER SUPPLEMENTAL INFORMATION

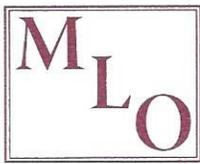
**WEBSTER COUNTY WATER DISTRICT
ADMINISTRATIVE PERSONNEL AND COMMISSIONERS
DECEMBER 31, 2015**

ADMINISTRATIVE PERSONNEL

Paul D. Lashbrooke, Superintendent
Robert Schindley, Assistant Superintendent
Roger D. Brooks, Plant Operator
Myra Bell Scott, Accounting Assistant

COMMISSIONERS

Charles Buchanan, Chairman
Tommy Robertson, Vice Chairman
James Goff, Secretary
Larry Villines, Treasurer
Ryan Hammack



Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY 42450

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 Commissioners
Webster County Water District

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Webster County Water District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Webster County Water District's basic financial statements, and have issued my report thereon dated July 6, 2016

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Webster 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Webster County Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of Webster County Water 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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Webster County Water District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not

express an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

A handwritten signature in black ink, appearing to read "Michael J. Carley, CPA, LLC". The signature is written in a cursive, flowing style.

Providence, Kentucky
July 6, 2016

OATH

Commonwealth of Kentucky)
County of Webster) ss:

Larry Villines makes oath and says
(Name of Officer)

that he/she is Treasurer of Board of
(Official title of officer)

Webster County Water District
(Exact legal title or name of respondent)

that it is his/her duty to have supervision over the books of account of the respondent and to control the manner in which such books are kept; that he/she knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Public Service Commission of Kentucky, effective during the said period; that he/she has carefully examined the said report and to have the best of his/her knowledge and belief the entries contained in the said report have, so far as they relate to matters of account, been accurately taken from the said books of account and are in exact accordance therewith; that he/she believes that all other statements of fact contained in the said report are true; and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including

January 01, 2015 , to and including December 31, 2015

[Signature]
(Signature of Officer)

subscribed and sworn to before me, a Notary Public , in and for
the State and County named in the above this 7-27-16

(Apply Seal Here)

My Commission expires 2-17-19
Tammy G. Harkin's
(Signature of officer authorized to administer oath)

