MARTIN COUNTY WATER DISTRICT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the Martin County Water District
Inez, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the enterprise fund of the Martin County Water District (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 from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund of the 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.

Change in Accounting Principle

As described in Note 6 to the financial statements, in 2015, the District adopted new accounting guidance, GASB *Statement No. 68, Accounting and Financial Reporting for Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's proportionate share of the net pension liability, and schedule of contributions information as listed in the table of contents be presented to supplement the basic financial statements. Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. We have applied certain limited procedures to the remaining 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 our report dated September 30, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
September 30, 2016

Martin County Water District
STATEMENT OF NET POSITION
December 31, 2015

		2015
ASSETS:		
Current assets:		
Cash and cash equivalents	$	94,137
Accounts receivable		
Customer, net		235,876
Other, net		12,481
Inventory		24,067
Prepaid expenses		24,484
Accrued utility revenues		258,199
Total current assets		649,244
Noncurrent assets:		
Restricted cash and cash equivalents		288,317
Capital assets not being depreciated		234,681
Capital assts, net of accumulated depreciation		20,790,640
Total noncurrent assets		21,313,639
Deferred outflows of resources:		
Deferred outflows of resources related to pensions		52,952
Total Assets	$	22,015,835
LIABILITIES:		
Current liabilities:		
Accounts payable	$	609,534
Accrued liabilities:		
Payroll taxes		2,566
Other		60,923
Interest		52,860
Customer deposits		139,998
Current portion of long-term debt:		
Bonds		30,000
Note		48,450
Capital lease		10,000
Total current liabilities		954,331
Noncurrent liabilities:		
Net pension liability		750,000
Noncurrent portion of long-term debt:		
Bonds		1,980,000
Note		606,852
Capital lease		116,222
Total noncurrent liabilities		3,453,074
Deferred Inflows of Resources		
Inflow of resources related to current refunding premium		21,893
Infolow of resources related to pensions		84,000
Total deferred outflows of resourcess		105,893
Total liabilities		4,513,298
NET POSITION		
Net Investment in capital assets		18,233,797
Restricted for:		
Reserves		288,317
Unrestricted		(1,019,577)
Total net position		17,502,538
Total liabilities and net position	$	22,015,835

See the accompanying notes to the financial statements.

Martin County Water District

STATEMENT OF REVENUES, EXPENSES and CHANGES in NET POSITION

For the Year Ended December 31, 2015

		2015
OPERATING REVENUES:		
Water sales:		
Residential	$	1,624,198
Commercial		361,679
Industrial		9,836
Martin Fire Department		2,270
Other		724
Unmetered		304
Other sales:		
Public authorities		4,540
Penalties		74,965
Other		3,073
Vendors		286
Miscellaneous		15,621
Total operating revenues		2,097,496
OPERATING EXPENSES:		
Salaries and wages		550,131
Employee benefits		249,646
Purchased water		426,314
Chemicals		114,987
Materials & supplies		223,500
Contractual services		182,458
Rental		126,831
Transportation		66,616
Insurance		55,847
Bad debt		53,516
Regulatory assess fees		4,298
Depreciation		773,303
Miscellaneous		38,324
Total operating expenses		2,865,772
OPERATIONS INCOME (LOSS)		(768,276)
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		284
Amortization of deferrals		470
Bond issuance costs		(67,250)
Interest expense		(102,016)
Total nonoperating revenues (expenses)		(168,512)
INCOME (LOSS) BEFORE CONTRIBUTIONS		(936,788)
Tap fees		14,352
Contributions		52,615
Total capital contributions		66,967
CHANGE IN NET POSITION		(869,821)
NET POSITION, BEGINNING		19,121,149
Prior period adjustment		(748,791)
RESTATED NET POSITION, BEGINNING		18,372,358
NET POSITION, ENDING	$	17,502,538

See the accompanying notes to the financial statements.

Martin County Water District
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

		2015
Cash flows from operating activities:		
Cash received from customers and other sources	$	2,097,496
Cash payments to suppliers for goods and services		(882,331)
Cash payments for employees and benefits		(852,729)
Net cash provided (used) by operating activities		362,436
Cash flows from capital and related financing activities:		
Purchases and construction of capital assets		(70,987)
Principal payments on long-term debt		(18,020)
Bond issuance costs		(67,250)
Amortization of deferral of resources		470
Interest paid on long-term debt		(102,016)
Net cash provided (used) by capital and related financing activities		(257,802)
Cash flows from investing activities:		
Interest on note		0
Other cash flows		1,209
Investment income received		284
Net cash provided (used) by investing activities		1,493
Net increase (decrease) in cash and cash equivalents		106,126
Cash and cash equivalents, beginning of year		276,328
Cash and cash equivalents, end of year	$	382,454
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	(768,276)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation/Amortization		773,303
Accounts receivable		5,926
Inventory		2,205
Prepaid expenses		(5,495)
Accrued revenues		(14,546)
Deferrals		52,941
Accounts payable		261,812
Accrued liabilities		47,917
Customer deposits		6,649
Net cash provided (used) by operating activities	$	362,436

Noncash items:
Capital contributions were $66,967.

Interest expense:
Interest expense was $102,016.

See the accompanying notes to the financial statements.

NOTE 1 – Reporting entity and significant accounting policies

(a) *Description of the reporting entity*

The Martin County Water District (District) was authorized by action of the Martin County Fiscal Court. The Martin County Water District Side A was formed December 1, 1962. On August 31, 1996 the Fiscal Court, with approval of the Kentucky Public Service Commission, merged Section A and B. The District is a Special Purpose Government Entity (SPGE) recognized by the Kentucky Department of Local Government. The District is governed by the Martin County Utility Board, which is comprised of Commissioners appointed by the Martin County Fiscal Court.

The District, for financial purposes, includes the transactions relevant to the operation of the Martin County Water District. The financial statements presented herein do not include other agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Martin County Water District.

(b) *Basis of accounting*

The District operates and reports as an enterprise utilizing the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) *Applicable accounting standards*

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for financial statements of state and local governments. The District has elected to follow all pronouncements of the GASB.

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 an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation of capital

assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(d) *Investments*

Investments are reported in the accompanying statement of net position at fair value, except for certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

In accordance with the District's investment policy, the District may invest in the following:

Certificates of Deposit
U.S. Treasury Bills, Notes and Bonds
Local Agency Investment Fund
Money Market Mutual Funds

Currently, the District has no investments.

(e) *Statement of cash flows*

For the purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, restricted cash and cash equivalents, and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and cash equivalents and restricted cash and cash equivalents.

(f) *Restricted cash and cash equivalents*

Restricted cash and cash equivalents represent amounts held in trust at the bank and are set aside for bond sinking, operation and depreciation funds as required by the bond ordinance. Currently, the District has no restricted investments.

(g) *Capital assets*

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land improvements	10-50 years
Buildings and improvements	10-25 years
Technology equipment	5-20 years
Equipment	5-50 years

(h) *Employee leave benefits*

The District's policy on vacation shall accrue at the rate of eighty (80) hours per year for one (1) to five (5) years of full time employment, henceforth employees' may earn an additional eight (8) hours per year up to a maximum of one hundred and twenty (120) hours. Maximum accrual of each employee is one hundred and sixty (160) hours. No monetary value is given to the accrual of vacation.

The District's employees' shall accrue sick leave at the rate of eight (8) hours per month to a maximum of four hundred and eighty (480) hours. No monetary value is given to the accrual of sick leave.

(i) *Use of estimates*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(j) *Inventory*

The District maintains a detailed inventory of supplies needed to maintain the water infrastructure. Inventory is recorded at historical cost and expensed when used.

(k) *Prepaid expenses*

Payments made by the District that benefit periods beyond December 31st are classified as prepaid expenses. A current asset is recorded at the time of purchase and an expense is made per the consumption method. The prepayment of expenses is for the numerous insurances required on behalf of the District's employees' and its infrastructure.

(l) *Accrued utility revenues*

Accrued utility revenues are the accrual of water sales at December 31st that has not been billed to customers.

(m) *Accounts receivable, net*

The District accounts for the billings to customers as Customer accounts receivable less the amounts determined not to be collectable.

(n) *Capital contributions*

Capital contributions include the amounts paid by state and local governments that arise from contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

(o) *Reserves for net position*

The amount restricted in net position is the amount that has been set aside for payments of long-term debt. The restricted amount equals the restricted cash and cash equivalents as reported in the statement of net position.

(p) *Net investment in capital assets*

Net investment in capital assets is the net amount of the capital assets less the amounts payable for long-term debt financing those capital assets.

(q) *Customer deposits*

Deposits required by the District for each customer to receive services. The deposits are maintained by the District and returned when services are no longer used or other qualifying event by the District's policy.

(r) *Pensions*

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

(s) *New accounting pronouncements*

The District implemented Government Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting of 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 comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, 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.

NOTE 2 – Budgetary data

The District's Board of Commissioners receives and approves an annual budget from management each calendar year fulfilling the requirement to prepare an annual budget as required by all SPGE's for the Kentucky Department of Local Government.

NOTE 3 – Cash and cash equivalents

Cash and cash equivalents as of December 31, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	$ 94,137
Restricted cash and cash equivalents	288,317
Total cash and cash equivalents	$ 382,454

Cash and cash equivalents as of December 31, 2015 consist of the following:

Cash on hand	$ 900
Deposits with financial institutions	381,554
Total cash and cash equivalents	$ 382,454

Custodial risk

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of a another party. As of June 30th, the District's deposits with financial institutions are non-interest bearing, and have a limited insurance coverage with the federal deposit insurance corporation up to $250,000. As of December 31, 2015, the District deposits with financial institutions exceeded the federal depository insurance limits by $158,045. The difference has been covered by securities pledged by the financial institution holding the deposits.

NOTE 4 – Capital assets

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

	12/31/2013	Additions	Deductions	12/31/2014
Land	$ 214,714	$ -	$ -	$ 214,714
Construction in progress	57,500		57,500	-
Structures	500,264			500,264
Collecting & Impounding Reservoirs	288,203			288,203
Lakes, rivers and intakes	1,021,403	1,132,350		2,153,753
Pumping Equip	308,887	581		309,468
Water Treatment Equipment	4,812,970			4,812,970
Distribution reservor & standpipes	4,071,502			4,071,502
Transmission & Distribution mains	20,060,075			20,060,075
Meters & meter installation	483,949			483,949
Hydrants	2,969			2,969
Other plant & misc equip	861,964			861,964
Office Furniture & equipment	175,251			175,251
Transportation equipment	324,570			324,570
Tools	29,534			29,534
Lab Equipment	14,403			14,403
Power Operated equipment	43,193			43,193
Communication equipment	16,897			16,897
Total at historical cost	$ 33,288,246	$ 1,132,931	$ 57,500	$ 34,363,677
Less: Accumulated depreciation				
Structures	$ 97,892	$ 10,183	$	$ 108,075
Collecting & Impounding Reservoirs	63,959	1,555		65,514
Lakes, rivers and intakes	524,668	29,865		554,533
Pumping Equip	268,642	21,725		290,367
Water Treatment Equipment	1,291,307	92,253		1,383,560
Distribution reservoir & standpipes	854,392	81,505		935,897
Transmission & Distribution mains	7,303,779	494,624		7,798,403
Meters & meter installation	185,083	14,118		199,201
Hydrants	1,843	89		1,932
Other plant & misc equip	753,894	16,256		770,150
Office Furniture & equipment	171,917	1,402		173,319
Transportation equipment	311,355	7,314		318,669
Tools	29,167	80		29,247
Lab Equipment	14,401	-		14,401
Power Operated equipment	43,192	-		43,192
Communication equipment	15,647	899		16,546
Total accumulated depreciation	$ 11,931,138	$ 771,868	$ -	$ 12,703,006
Capital Assets-net	$ 21,357,108	$ 361,063	$ 57,500	$ 21,660,671

Depreciation expense was $773,303 for the year.

NOTE 5 – Long-term debt

Long-term debt activity for the calendar year ended December 31, 2015, was as follows:

Note payable

The amounts shown in the accompanying financial statements as a note payable represents the District's future obligations to make payments related to a loan obtained from the Kentucky Infrastructure Authority (KIA) to provide water to customers in the Martin County area.

The District is obligated to make payments in amounts sufficient to satisfy debt service. The original amount of the outstanding note, maturity date, interest rate, and outstanding balance at December 31, 2015 is summarized below:

Note Issue	Original Amount	Maturity Date	Interest Rates	2014 Debt Outstanding	Additions	Retirements	2015 Debt Outstanding
KIA	$ 1,329,826	2027	3%	$ 702,323		$ 47,020	$ 655,302

The current amount due for the note payable as of December 31, 2015, is $48,450. The collateral for the revenue is service revenue. Payments accrue monthly. Future note payable obligation is as follows:

	Principal	Interest	Total
2016	$ 48,450	$ 18,997	$ 67,447
2017	49,924	17,523	67,447
2018	51,443	16,004	67,447
2019	53,007	14,440	67,447
2020	54,620	12,827	67,447
2021-2025	299,052	38,183	337,235
2026-2027	98,806	2,364	101,170
	$ 655,302	$ 120,338	$ 775,640

Capital lease

The amount shown in the accompanying financial statements as capital lease represents the District's purchase of vehicles and equipment by obtaining funding from the Kentucky Association of Counties (KACO).

The District is obligated to make payments in amounts sufficient to satisfy the debt service. The original amount of outstanding capital lease, maturity date, interest rate, and outstanding balance, at December 31, 2015 is summarized below:

Captal Lease Issue	Original Amount	Maturity Date	Interest Rates	2014 Lease Outstanding	Additions	Retirements	2015 Lease Outstanding
KACO	$ 200,000	2025	1.85%	$ 136,222		$ 10,000	$ 126,222

The current amount due for the capital lease as of December 31, 2015, is $10,000. The collateral for the revenue is service revenue. Payments accrue monthly. Future capital lease obligations are as follows:

	Principal	Interest	Total
2016	$ 10,000	$ 5,264	$ 15,264
2017	10,000	4,834	14,834
2018	10,000	4,431	14,431
2019	10,000	4,013	14,013
2020	15,000	3,596	18,596
2021-2025	71,222	8,597	79,819
	$ 126,222	$ 30,735	$ 156,957

Bonds payable

The amounts shown in the accompanying financial statements as bonds payable represents the District's initiation and improvements of its water system by obtaining funding from the United States Department of Agriculture (USDA) Division of Rural Development (RD). The RD loans were refunded on May 12, 2015 from the Kentucky Rural Water Finance Corporation Public Projects.

Series 2015E Current Refunding

RD loans of $2,008,100 were refunded on May 12, 2015 by $2,010,000 par amount public project fund bond from the Kentucky Rural Water Finance Corporation. The new debt bears interest from 2.1 – 4.1% maturing on February 1, 2044. The net fair value cash flow savings is $223,252, and the net present value savings of $112,269, a savings of 4.06%. The District will receive a net future value benefit of $185,746 of refunding with the new debt a 3.72% savings.

The District is obligated to make payments in amounts sufficient to satisfy the new debt service. The original amount of outstanding bonds, maturity date, interest rate, and outstanding balance, at December 31, 2015 is summarized below:

Bond Issues	Original Amount	Maturity Date	Interest Rates	2014 Debt Outstanding	Additions	Retirements	2015 Debt Outstanding
RD 1	$ 554,000	2036	4.5%	$ 422,500		$ 422,500	$ -
RD 5	600,000	2040	4.5%	503,600		503,600	-
RD 8	910,000	2047	4.375%	856,000		856,000	-
RD 10	241,000	2047	4.375%	226,000		226,000	-
Refunding KRW	$ 2,010,000	2045	2.1-4.1%	-	2,010,000		2,010,000
				$ 2,008,100	$ 2,010,000	$ 2,008,100	$ 2,010,000

The current amount due for the bonds as of December 31, 2015, is $30,000. The collateral for the revenue is service revenue. Payments accrue monthly. Future bond obligations are as follows:

	Principal	Interest	Total
2016	$ 30,000	$ 91,300	$ 121,300
2017	50,000	73,974	123,974
2018	55,000	72,321	127,321
2019	55,000	70,066	125,066
2020	55,000	68,361	123,361
2021-2025	310,000	308,084	618,084
2026-2030	370,000	249,181	619,181
2031-2035	430,000	176,416	606,416
2036-2040	390,000	93,275	483,275
2041-2045	265,000	27,778	292,778
	$ 2,010,000	$ 1,230,756	$ 3,240,756

NOTE 6 – Pension Plan

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the 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, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date Before September 1, 2008
Unreduced retirement	27 years service or 65 years old
Reduced retirement	At least 5 years service and 55 years old
	At least 25 years service and any age
Tier 2	Participation date, September 1, 2008 – December 31, 2015
Unreduced retirement	At least 5 years service and 65 years old
	Or age 57+ and sum of service years plus age equal 87
Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date After December 31, 2015
Unreduced retirement	At least 5 years service and 65 years old
	Or age 57+ and sum of service years plus age equal 87
Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement 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 benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are $5,000 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 up to 40% for all dependent children. Five years' service is required for non-service-related disability benefits.

Contributions—Required contributions by the employee are based on the tier:

		Required contribution
Tier	1	5%
Tier	2	5% + 1% for insurance
Tier	3	5% + 1% for insurance

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 liabilityis as follows:

District's proportionate share of CERS's net pension liability	$ 750,000

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was .023123% (percent).

For the year ended December 31, 2015, the District recognized pension expense of $85,209 related to CERS. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	84,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	52,952	-
	$ 52,952	$ 84,000

$52,952 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

		Year Ended 12/31
2016	$	10,590
2017		10,590
2018		10,590
2019		10,590
2020		10,590
	$	52,952

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

	CERS	KTRS
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

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

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 calendar years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding

pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. 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 pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by the pension system, as well as what the District'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:

	1% Decrease	**Current Discount Rate**	**1% Increase**
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	846,996	750,000	653,397

Pension plan fiduciary net position—detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

NOTE 7 – Change in accounting principle and related changes to certain beginning balances.

Government Accounting Standards Board (GASB) No. 68, "Accounting and Financial Reporting for Pensions" required retrospective application. Since the District only presents one year of financial information, the beginning net position was adjusted to reflect the retrospective application. The adjustment resulted in a $748,791 reduction in beginning net position on the Statement of Revenues, Expenses and Changes in Net Position and an increase of $84,000 of deferred inflows of resources – and $52,952 in deferred outflows of resources – District contributions subsequent to the measurement date

NOTE 8 – Risk management

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/ destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omission, and general liability coverage, the District purchased commercial insurance coverage.

NOTE 9 – Subsequent events

The District has evaluated subsequent events through September 30, 2016, the date the financial statements were available to be issued.

Martin County Water District

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

For the Year Ended December 31, 2015

		Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:		
Districts' proportion of the net pension liability		0.02%
District's proportionate share of the net pension liability	$	750,000
State's proportionate share of the net pension liability associated with the District		-
Total	$	750,000
District's covered-employee payroll	$	693,688
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		108.12%
Plan fiduciary net position as a percentage of the total pension liability		66.80%

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

See the accompanying notes to the required supplementary information.

Martin County Water District
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
Year Ended December 31, 2015

COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	2015	2014
Contractually required contribution	$ 104,892	$ 97,385
Contributions in relation to the contractually required contribution	104,892	$ 97,385
Contribution deficiency (excess)	-	-
District's covered-employee payroll	$ 693,688	$ 593,711
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	15.12%	16.40%

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

See the accompanying notes to the required supplementary information.

Changes in terms –None

Changes in assumptions - None

White & Associates, PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners of the Martin County Water District
Inez, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the enterprise fund of Martin County Water District (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, and have issued our report thereon dated September 30, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
September 30, 2016

MARTIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS
Year Ended December 31, 2015

SECTION I – SUMMARY OF AUDITORS' RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed?	None reported
If so, was any significant deficiencies material (GAGAS)?	N/A
Was any material noncompliance reported (GAGAS)?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings.

MARTIN COUNTY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2015

There were no findings from the prior year.

White & Associates, PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475

September 30, 2016

To the Board of Commissioners of the Martin County Water District
Inez, Kentucky

We have audited the financial statements of the enterprise fund of the Martin County Water District for the year ended December 31, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 19, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Martin County Water District are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the government wide financial statements was the useful lives and residual values of capital assets:

> Management's estimate of the useful lives and residual values of capital assets is based on historical trends. We evaluated the key factors and assumptions used to develop the useful lives and residual values of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Commisssioners and the Martin County Fiscal Court and management of the Martin County Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
September 30, 2016