

**EAST CLARK COUNTY WATER DISTRICT**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

# Table Of Contents

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|  | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report   | 1 - 3       |
| Management's Discussion and Analysis   | 4 - 8       |
| <b>Basic Financial Statements:</b>   |             |
| Statement of Net Position  | 9 - 10      |
| Statement of Revenue, Expenditures, and Changes in Net Position  | 11          |
| Statement of Cash Flows  | 12 - 13     |
| Notes to the Financial Statements  | 14 - 28     |
| <b>Required Supplementary Information:</b>   |             |
| Statements of Revenue, Expenditures, and<br>Changes and Net Position - Budget and Actual   | 30          |
| Schedule of Proportionate Share of the Net Pension Liability   | 31          |
| Schedule of Contributions  | 32          |
| Notes to Required Supplementary Information  | 33          |
| <b>Supplementary Information:</b>  |             |
| Statement of Functional Expenses - 2016  | 35          |
| Statement of Functional Expenses – 2015  | 36          |
| Report on Internal Control Over Financial Reporting<br>and on Compliance and Other Matters Based on an<br>Audit of Financial Statements Performed in<br>Accordance with <i>Government Auditing Standards</i> | 37-38       |

**SUMMERS, MCCRARY & SPARKS, P.S.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners of  
East Clark County Water District  
Winchester, KY

We have audited the accompanying financial statements of the business-type activities of the East Clark County Water District, as of and for the year ended December 31, 2016, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the East Clark County Water District, as of December 31, 2016, 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 7, budgetary comparison information on page 29 and the Schedule of the Proportionate Share of the Net Pension Liability, Schedule of Contributions, and Notes to the Required Supplementary Information on pages 30 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Statement of Functional Expenses for the year ended December 31, 2016 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statement of Functional Expenses for the years ended December 31, 2016 is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, The Statement of Functional Expenses for the year ended December 31, 2016 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *Prior Period Financial Statements*

The financial statements of the prior period ending Decemeber 31, 2015 were audited by a predecessor auditor. The predecessor auditor issued an unqualified opinion on the prior period financial statements. The predecessor auditor included an Other Matters paragraph concerning the Required Supplemental Information and Other Information which was included in the prior period audit. The predecessor audit opinion was dated March 16, 2016.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2017, 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.

*Summers, McCrary & Sparks, PSC*

Winchester, KY  
March 13, 2017

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
DECEMBER 31, 2016 AND 2015

East Clark County Water District (the District) is presenting the following discussion and analysis to provide an overall review of the District's financial activities for the fiscal years ending December 31, 2016, 2015, and 2014. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

**2016 FINANCIAL HIGHLIGHTS**

- The District's operating revenues and operating expenses remained consistent with the prior year.
- The District's total assets decreased \$199,232 and total liabilities decreased \$120,074, resulting in an increase in total net position of \$821 or 0.01% from the prior year.
- Interest income for the year was \$7,870, which is consistent with interest income in 2015.

**GENERAL INFORMATION ABOUT EAST CLARK COUNTY WATER DISTRICT**

The District recognized the need for a central water supply for the residents of the eastern section of Clark County, Kentucky early in its history. The District was organized in 1967 pursuant to Chapter 74 of the Kentucky Revised Statutes.

Management is vested in a five-member commission consisting of a chairman and four commissioners appointed by Clark County Fiscal Court.

The District relies on Winchester Municipal Utilities and Kentucky American Water Company for its water supply. Water is pumped to approximately 2400 customers through more than 197 miles of water mains. The Kentucky Public Service Commission (PSC) regulates the District in matters of rates, rules, and levels of service.

**DISTRICT FINANCIAL ANALYSIS**

The Statements of Net Position includes all the District's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District. A summary of the District's Statements of Net Position is presented below.

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2016 AND 2015

|  |                     |                     |                     |
|--|---------------------|---------------------|---------------------|
| Current and other assets                             | \$ 2,005,164        | \$ 2,137,655        | \$ 2,743,350        |
| Capital Assets, net of depreciation                  | <u>8,444,184</u>    | <u>8,510,925</u>    | <u>8,081,488</u>    |
| Total Assets   | 10,449,348          | 10,648,580          | 10,824,838          |
| <br>   |                     |                     |                     |
| Deferred Outflows of resources                       | <u>117,871</u>      | <u>69,775</u>       | <u>-</u>            |
| <br>   |                     |                     |                     |
| Debt outstanding                                     | 1,588,832           | 1,855,790           | 2,118,748           |
| Other liabilities                                    | <u>649,028</u>      | <u>502,144</u>      | <u>170,468</u>      |
| Total liabilities                                    | <u>2,237,860</u>    | <u>2,357,934</u>    | <u>2,289,216</u>    |
| <br>   |                     |                     |                     |
| Deferred Inflows of resources                        | <u>-</u>            | <u>30,241</u>       | <u>-</u>            |
| <br>   |                     |                     |                     |
| Investment in capital assets,<br>net of depreciation | 6,855,352           | 6,655,135           | 5,890,340           |
| Restricted net assets                                | 136,201             | 136,211             | 136,201             |
| Unrestricted net assets                              | <u>1,337,806</u>    | <u>1,538,834</u>    | <u>2,509,081</u>    |
| <br>   |                     |                     |                     |
| Total net position                                   | \$ <u>8,329,359</u> | \$ <u>8,330,180</u> | \$ <u>8,535,622</u> |

Net position decreased \$821 from 2015 to 2016, a decrease of 0.01%. Debt outstanding has decreased \$266,958 or 14.39% from 2015.

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2016 AND 2015

Condensed Statements of Activities and Changes in Net Position

|                                 | \$ | <u>2016</u>      | \$ | <u>2015</u>      | \$ | <u>2014</u>      |
|---------------------------------|----|------------------|----|------------------|----|------------------|
| Operating revenues              |    | 1,426,812        |    | 1,437,629        |    | 1,511,684        |
| Non-operating revenues          |    | <u>15,855</u>    |    | <u>10,103</u>    |    | <u>5,608</u>     |
| Total revenues                  |    | <u>1,442,667</u> |    | <u>1,447,732</u> |    | <u>1,517,292</u> |
| Operating Expenses              |    | 1,083,996        |    | 975,912          |    | 994,908          |
| Depreciation                    |    | 326,762          |    | 314,732          |    | 312,547          |
| Non-operating expense           |    | <u>68,890</u>    |    | <u>70,804</u>    |    | <u>70,249</u>    |
| Total expenses                  |    | <u>1,479,648</u> |    | <u>1,361,448</u> |    | <u>1,377,704</u> |
| Net income                      |    | (36,981)         |    | 86,284           |    | 139,588          |
| Customer connection fees        |    | <u>36,160</u>    |    | <u>26,821</u>    |    | <u>18,269</u>    |
| Change in net position          |    | (821)            |    | 113,105          |    | 157,857          |
| Beginning net position          |    | 8,330,180        |    | 8,535,622        |    | 8,377,765        |
| Prior period adjustment         |    | <u>-</u>         |    | <u>(318,547)</u> |    | <u>-</u>         |
| Adjusted beginning net position |    | <u>8,330,180</u> |    | <u>8,217,075</u> |    | <u>8,377,765</u> |
| Ending net position             | \$ | <u>8,329,359</u> | \$ | <u>8,330,180</u> | \$ | <u>8,535,622</u> |

The District's total revenue, excluding grants, decreased by \$5,065 or 0.35%. The decrease is due in part to weather conditions. Total expenses increased \$118,200 or 8.69%. The increase is due to the increase cost of employee benefits and adjustment related to the District's unfunded pension liability. The increase in depreciation in 2016 of \$12,030 or 3.82% is attributed purchase of fixed assets and equipment. In 2016, non-operating expense consists of interest expense on long-term debt of \$68,890. In 2015, non-operating expense consists of interest expense on long term debt of \$70,804. In 2014, non-operating expense consists of interest expense on long-term debt of \$70,804.



EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2016 AND 2015

**CAPITAL EXPENDITURES**

Condensed Schedule of Capital Assets

|                          | <u>2016</u>         | <u>2015</u>        | <u>2014</u>        |
|--------------------------|---------------------|--------------------|--------------------|
| Capital assets           | \$ 13,449,189       | \$ 13,216,352      | \$ 12,493,548      |
| Accumulated depreciation | <u>(5,005,005)</u>  | <u>(4,705,427)</u> | <u>(4,412,060)</u> |
|                          | <u>\$ 8,444,184</u> | <u>8,510,925</u>   | <u>8,081,488</u>   |

In 2016 the District purchase land and buildings on Jefferson Street in Winchester and sold the land and building on Flannigan Street. Funds for the purchase came from the District's reserves. In 2015, the Districted started and completed upgrades to its Ecton Road and Little Stoner Road lines and a line extension on Wilderness Road. The project costs of \$654,000 were paid for from the District's reserve funds. There were no construction projects in 2014. Equipment acquisitions were financed from the District's reserve funds in 2016, 2015, and 2014. Contributions to capital amounted to \$36,160 in 2016, \$26,821 in 2015, and \$18,269 in 2014, for new tap-on fees to existing lines.

**BONDS AND CAPITAL LEASE OBLIGATIONS**

Condensed Schedule of Debt

|                           | <u>2016</u>         | <u>2015</u>         | <u>2014</u>         |
|---------------------------|---------------------|---------------------|---------------------|
| Bonds                     | 1,142,832           | 1,215,790           | 1,292,748           |
| Capital lease obligations | <u>446,000</u>      | <u>640,000</u>      | <u>826,000</u>      |
| Total                     | <u>\$ 1,588,832</u> | <u>\$ 1,855,790</u> | <u>\$ 2,118,748</u> |

The District made all its scheduled debt payments during 2016, 2015, and 2014.

EAST CLARK COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)  
DECEMBER 31, 2016 AND 2015

**ECONOMIC FACTORS AND FUTURE BUDGET ISSUES**

The District continues to sustain slow growth. New tap-on fees increased \$9,339 or 34.8% from 2015 to 2016. Growth in 2017, is anticipated to remain at slow levels.

During 2016, the District's water rates did not increase. The District buys water for distribution to its customers. In the future, as cost of purchased water rises, rate increases from WMU and Kentucky American Water Company, who supply water to the District, will be passed on to District customers.

**DISTRICT CONTACT INFORMATION**

This financial report is designed to provide our customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact East Clark County Water District, 118 Hopkins Street, Winchester, KY 40392 or by phone at (859) 745-1458 or by email at [wdballard@bellsouth.net](mailto:wdballard@bellsouth.net).

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016 and 2015

**ASSETS**

|  | <u>2016</u>              | <u>2015</u>              |
|--|--------------------------|--------------------------|
| Current assets:                                    |                          |                          |
| Cash and cash equivalents                          | \$ 683,000               | \$ 669,660               |
| Investments  | 1,040,892                | 1,185,709                |
| Receivables:                                       |                          |                          |
| Customer accounts                                  | 110,128                  | 113,609                  |
| Unbilled   | 39,676                   | 40,964                   |
| Accrued interest                                   | 3,367                    | 2,292                    |
| Inventory, at cost                                 | 30,223                   | 28,001                   |
| Prepaid expenses                                   | <u>15,715</u>            | <u>14,367</u>            |
| Total current assets                               | <u>1,923,001</u>         | <u>2,054,602</u>         |
| Restricted assets:                                 |                          |                          |
| Cash and cash equivalents                          | <u>82,163</u>            | <u>83,053</u>            |
| Total restricted assets                            | <u>82,163</u>            | <u>83,053</u>            |
| Capital assets:                                    |                          |                          |
| Property, plant and equipment, net of depreciation | 8,354,140                | 8,452,881                |
| Land   | <u>90,044</u>            | <u>58,044</u>            |
| Total capital assets                               | <u>8,444,184</u>         | <u>8,510,925</u>         |
| Total assets                                       | <u>\$ 10,449,348</u>     | <u>\$ 10,648,580</u>     |
| Deferred outflows of resources                     | <u>117,871</u>           | <u>69,775</u>            |
| Total assets and deferred outflows of resources    | <u><u>10,567,219</u></u> | <u><u>10,718,355</u></u> |

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF NET POSITION (CONTINUED)  
DECEMBER 31, 2016 and 2015

**LIABILITIES AND NET POSITION**

|   | <u>2016</u>         | <u>2015</u>       |
|---|---------------------|-------------------|
| Current liabilities:  |                     |                   |
| Accounts payable, trade   | \$ 31,281           | 29,731            |
| Accrued compensated absences  | 17,212              | 17,212            |
| Accrued interest payable  | 20,693              | 23,474            |
| Accrued liabilities   | 15,816              | 10,639            |
| Lease obligations - current portion                                   | 169,000             | 194,000           |
| Refundable customer deposits  | 92,935              | 82,440            |
| Revenue bonds - current portion                                       | 83,000              | 82,000            |
|   | <u>429,937</u>      | <u>439,496</u>    |
| <br>Long-term liabilities:  |                     |                   |
| Revenue bonds net of current portion                                  | 1,059,832           | 1,133,790         |
| Obligations under long-term lease net of current portion              | 277,000             | 446,000           |
| Unfunded pension liability  | 471,091             | 338,648           |
|   | <u>1,807,923</u>    | <u>1,918,438</u>  |
| <br>Total long-term liabilities                                       | <u>1,807,923</u>    | <u>1,918,438</u>  |
| <br>Total liabilities   | <u>2,237,860</u>    | <u>2,357,934</u>  |
| <br>Deferred inflows of resources                                     | <u>-</u>            | <u>30,241</u>     |
| <br>Net Position  |                     |                   |
| Investment in capital assets, net of related debt                     | 6,855,352           | 6,655,135         |
| Restricted:   |                     |                   |
| Restricted for debt retirement  | 117,001             | 117,001           |
| Restricted for plant renewal and replacement                          | 19,200              | 19,200            |
| Unrestricted  | 1,337,806           | 1,538,844         |
|   | <u>1,337,806</u>    | <u>1,538,844</u>  |
| <br>Total net position  | <u>\$ 8,329,359</u> | <u>8,330,180</u>  |
| <br>Total liabilities, net position and deferred inflows of resources | <u>10,567,219</u>   | <u>10,718,355</u> |

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2016 and 2015

|   | <u>2016</u>                | <u>2015</u>                |
|---|----------------------------|----------------------------|
| Operating revenues  |                            |                            |
| Water sales   | \$ 1,390,053               | \$ 1,399,366               |
| Other operating income  | <u>36,759</u>              | <u>38,263</u>              |
| Total operating revenues                                      | <u>1,426,812</u>           | <u>1,437,629</u>           |
| Operating expenses  |                            |                            |
| Transmission, distribution and services                       | 394,285                    | 335,982                    |
| Purchased water   | 325,345                    | 326,081                    |
| General and administrative                                    | 364,366                    | 313,849                    |
| Depreciation  | <u>326,762</u>             | <u>314,732</u>             |
| Total operating expenses                                      | <u>1,410,758</u>           | <u>1,290,644</u>           |
| Operating income  | <u>16,054</u>              | <u>146,985</u>             |
| Non-operating revenues (expenses):                            |                            |                            |
| Interest income   | 7,870                      | 6,863                      |
| Customer connection fees                                      | 36,160                     | 26,821                     |
| Gain on disposal of assets                                    | 7,985                      | 3,240                      |
| Interest expense  | <u>(68,890)</u>            | <u>(70,804)</u>            |
| Total non-operating revenues (expenses)                       | <u>(16,875)</u>            | <u>(33,880)</u>            |
| Change in net position  | (821)                      | 113,105                    |
| Net position at the beginning of the year                     | 8,330,180                  | 8,535,622                  |
| Prior period adjustment related to unfunded pension liability |                            | <u>(318,547)</u>           |
| Net position at the beginning of the year, as adjusted        | 8,330,180                  | 8,217,075                  |
| Net position at the end of the year                           | <u><u>\$ 8,329,359</u></u> | <u><u>\$ 8,330,180</u></u> |

See accompanying notes to the financial statements.

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016 and 2015

|  | <u>2016</u>  | <u>2015</u>  |
|--|--------------|--------------|
| Cash flows from operating activities:                                |              |              |
| Cash received from customers   | \$ 1,442,076 | \$ 1,324,020 |
| Cash payments to suppliers for goods and services                    | (552,400)    | (479,522)    |
| Cash payments to employees and professional contractors for services | (474,316)    | (314,307)    |
|  | 415,360      | 530,191      |
| Net cash provided by operating activities                            |              |              |
| Cash flows from capital and related financing activities:            |              |              |
| Principal payments on bonds and lease obligations                    | (266,958)    | (263,916)    |
| Interest payments on bonds and lease obligations                     | (71,671)     | (70,804)     |
| Construction of fixed assets   | -            | (681,836)    |
| Purchase of fixed assets   | (225,000)    | -            |
| Equipment purchased  | (83,993)     | (40,967)     |
| Disposal of fully depreciated assets                                 | -            | (21,366)     |
| Sales of real estate   | 56,940       | -            |
| Sale of surplus equipment  | -            | 3,240        |
| Customer connection fees   | 36,160       | 26,821       |
|  | (554,522)    | (1,048,828)  |
| Net cash used by capital and related financing activities            |              |              |
| Cash flows from investing activities:                                |              |              |
| Sale (acquisition) of unrestricted investments                       | 144,817      | 466,212      |
| Interest received on cash deposits and investments                   | 6,795        | 6,863        |
|  | 151,612      | 473,075      |
| Net cash provided by investing activities                            |              |              |
| Increase (decrease) in cash and cash equivalents                     | 12,450       | (45,562)     |

(CONTINUED)

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2016 and 2015

|   | <u>2016</u>       | <u>2015</u>       |
|---|-------------------|-------------------|
| Increase (decrease) in cash and cash equivalents (from page 11)                         | 12,450            | (45,562)          |
| Cash and cash equivalents at the beginning of the year                                  | <u>752,713</u>    | <u>798,275</u>    |
| Cash and cash equivalents at the end of the year  | <u>\$ 765,163</u> | <u>\$ 752,713</u> |
|   |                   |                   |
| Reconciliation of cash and cash equivalents at the end of the year                      |                   |                   |
| Unrestricted cash and cash equivalents  | \$ 683,000        | \$ 669,660        |
| Restricted cash and cash equivalents  | <u>82,163</u>     | <u>83,053</u>     |
|   |                   |                   |
| Total cash and cash equivalents at the end of the year                                  | <u>\$ 765,163</u> | <u>\$ 752,713</u> |
|   |                   |                   |
| Reconciliation of income from operations to net cash provided by operating activities:  |                   |                   |
| Income from operations  | \$ 16,054         | \$ 146,985        |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                   |                   |
| Depreciation and amortization   | 326,762           | 308,130           |
| (Increase) decrease in:   |                   |                   |
| Customer accounts receivable  | 3,481             | (490)             |
| Unbilled receivable   | 1,288             | 1,658             |
| Other receivables   | -                 | 94,059            |
| Inventory   | (2,222)           | (407)             |
| Prepaid expenses  | (1,348)           | (899)             |
| Increase (decrease) in:   |                   |                   |
| Accounts payable, trade accounts  | 1,550             | (3,245)           |
| Accrued liabilities   | 5,194             | (13,675)          |
| Accrued compensated absences  | -                 | (1,521)           |
| Changes in net pension liability  | 54,106            | (11,873)          |
| Customer deposits   | <u>10,495</u>     | <u>10,040</u>     |
|   |                   |                   |
| Net cash provided by operating activities   | <u>\$ 415,360</u> | <u>\$ 528,762</u> |

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Clark County Water District is a "Class B" water district located in Clark County, Kentucky, with principal offices located at 118 Hopkins Lane, Winchester, Kentucky. It was organized in 1967, under Kentucky Revised Statutes, Chapter 74. It is overseen by a five-member commission consisting of a chairman and four commissioners, all appointed by Clark County Fiscal Court. Water is purchased from Winchester Municipal Utilities and Kentucky American Water Company and resold to approximately 2,400 residential and commercial customers.

Basis of Accounting and Measurement Focus

The District is accounted for as a governmental proprietary fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the public on a continuing basis are financed primarily through user charges.

The District is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water to customers in connection with the District's ongoing operations. The principal operating revenues are charges to customers for water sales and services. Operating expenses include the cost of purchased water and other related service expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues and expenses generally result from contracts with other entities to move existing water lines as required by road and railroad maintenance and improvements.

Property and Equipment

The District capitalizes expenditures for property and equipment of \$1,000 or more. Property and equipment are stated at cost. Donations are recorded at their fair market value at the date of transfer. No donated assets were received in the years ended December 31, 2016 and 2015.



EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation of exhaustible fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets. Depreciation is provided for financial statement purposes by the straight-line method over the following estimated useful lives:

|                                    |            |
|------------------------------------|------------|
| Lines and storage                  | 50 years   |
| Building                           | 30 years   |
| Pumps and treatment equipment      | 20 years   |
| Maintenance equipment and vehicles | 3-10 years |
| Office furniture and equipment     | 3-5 years  |

Capital Grants and Subsidies

The purchase of property and equipment acquired by grants and subsidies restricted for that purpose are capitalized and the grant or subsidy is recorded as non-operating revenue. These grants and subsidies are not subject to repayment. Certain plant assets have been contributed by customers. These contributions are not subject to repayment.

Receivables

All receivables are reported at their gross value. Estimated un-billed revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. No allowance for doubtful accounts is provided. The District identifies and writes off uncollectible accounts as they occur. Bad debts written off as of December 31, 2016 and 2015 were \$5,426 and \$2,967 respectively.

Vacation, Sick Leave, and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Paid vacation time accrues at the rate of one to three weeks based on the length of employment. Unused vacation time may be carried forward from one year to the next with certain limitations. Other compensated absences do not vest and are recorded as expenditures when they are paid.

Pensions

For the 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 Kentucky County Employee Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The District includes in cash and cash equivalents, cash on hand and unrestricted cash in checking, money market accounts, federated treasury obligation funds, and unrestricted certificates of deposit with maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market value on a first-in, first-out basis.

Investments

Investments consist of certificates of deposits with maturity dates of three months or more. Management believes the face value of the certificates approximates their market value. Certificates of deposit in excess of FDIC insurance are collateralized by securities held by the pledging institution.

Interest

Interest is charged to expense as incurred except for interest related to loans used for construction projects, which is capitalized net of interest earned on such borrowed construction funds. Interest capitalization ceases when the construction project is substantially complete. There was no capitalized interest during 2016 and 2015.

Net Position Classifications

The District records restrictions for portions of its net position which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriation. Unrestricted portions of net position indicate amounts which are available for appropriation in future periods. Restrictions in net position are classified as follows:

- **Investment in capital assets, net of related debt** includes the District's capital assets, (net of accumulated depreciation) reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted for Debt Service** includes assets that have been set aside as required by statute or bond covenant for the future payment of the District's Debt.
- **Restricted for Plant Renewal and replacement** includes assets that have been set aside for future additions, repairs or replacement of property, plant or infrastructure.

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016 AND 2015

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS

The District investment policies conform to state statutes. The District deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Investments include certificates of deposit with maturities of one year with banks. Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky Revenue Bonds. The District’s deposits and investments are collateralized with securities held by the bank’s trust department in the District’s name or letter of credit held by a third party in the District’s name.

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS (CONTINUED)

*Custodial Credit Risk-Deposits.* Custodial credit risk is the risk that in the event of the failure of a financial institution, the District’s deposits and/or investments may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2016, and 2015, District’s total deposits at banks of \$ 1,806,055 and \$1,938,422, respectively, were exposed to custodial credit risk as follows:

|   | 2016         | 2015         |
|---|--------------|--------------|
| Insured, collateral held by third party   |              |              |
| In the District's name  | \$ 500,000   | \$ 538,360   |
| Insured, collateral held by pledging bank's trust department in the District's name | 1,485,668    | 1,436,871    |
|   | \$ 1,985,668 | \$ 1,975,231 |

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH

The Bond Resolutions require the creation of various separate deposit accounts, each designated for a specific purpose, as defined in the resolution. A summary of the required accounts and their significant provisions follows:

Revenue Fund

All income to the District is deposited to the Revenue Fund, and then transferred to the other funds as indicated below.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH (Continued)

Bond and Interest Sinking Funds and Sinking Fund Reserves

The Bond and Interest Sinking Funds were established to provide sources of funds for the payment of bond principal and interest, currently due. Each month funds equal to the total of (1) one-sixth of the next succeeding semiannual interest payment plus (2) one-twelfth of the next annual bond principal payments are to be transferred to the funds. For the years ended December 31, 2016 and 2015 the required Sinking Fund Reserve balances were \$117,001 and \$117,001, respectively.

Depreciation Reserve Fund

The Depreciation Reserve Fund was established to provide funds for extraordinary repairs, betterments, and expansion. The District is required to deposit \$160 into the fund each month until the accumulated balance equals \$19,200. Funds may be used as needed, but the balance must be restored to \$19,200, as soon as possible, so long as any bonds are outstanding and unpaid.

Operation and Maintenance Fund

Monthly sums, sufficient to meet the current expenses of operating and maintaining the system, are to be transferred from the Revenue Fund. The balance shall not be in excess of an amount sufficient to cover anticipated expenditures for a two-month period, which is approximately \$150,000. The balances as of December 31, 2016 and 2015 were \$34,240 and \$30,807, respectively.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Activity for plant and equipment, which is capitalized by the District for the year ended December 31, 2016, is summarized below:

|  | <u>Balance</u><br><u>Dec. 31, 2015</u> | <u>Additions</u>   | <u>Retirements</u> | <u>Balance</u><br><u>Dec. 31, 2016</u> |
|--|--|--------------------|--------------------|--|
| Non depreciable assets:                      |  |                    |                    |  |
| Land   | \$ 58,044                              | \$ 45,000          | \$ 13,000          | \$ 90,044                              |
| Depreciable assets:                          |  |                    |                    |  |
| Buildings and improvements                   | 450,145                                | 185,600            | 63,156             | 572,589                                |
| Pumps  | 95,136                                 | 3,403              | -                  | 98,539                                 |
| Lines and storage                            | 11,095,831                             | -                  | -                  | 11,095,831                             |
| Meters                                       | 1,009,669                              | 38,434             | -                  | 1,048,103                              |
| Office equipment                             | 66,454                                 | 1,171              | -                  | 67,625                                 |
| Vehicles                                     | 182,709                                | 28,390             | -                  | 211,099                                |
| Maintenance equipment                        | 258,364                                | 6,995              | -                  | 265,359                                |
| Total depreciable assets                     | <u>13,158,308</u>                      | <u>263,993</u>     | <u>63,156</u>      | <u>13,359,145</u>                      |
| Less Accumulated depreciation:               |  |                    |                    |  |
| Buildings and improvements                   | 236,724                                | 21,570             | 27,185             | 231,109                                |
| Pumps  | 47,066                                 | 2,813              | -                  | 49,879                                 |
| Lines and storage                            | 3,705,307                              | 225,338            | -                  | 3,930,645                              |
| Meters                                       | 391,803                                | 51,388             | -                  | 443,191                                |
| Office equipment                             | 62,579                                 | 1,358              | -                  | 63,937                                 |
| Vehicles                                     | 128,189                                | 11,141             | -                  | 139,330                                |
| Maintenance equipment                        | 133,759                                | 13,155             | -                  | 146,914                                |
| Total accum. Depreciation                    | <u>4,705,427</u>                       | <u>326,763</u>     | <u>27,185</u>      | <u>5,005,005</u>                       |
| Depreciable assets, net                      | <u>8,452,881</u>                       | <u>(62,770)</u>    | <u>35,971</u>      | <u>8,354,140</u>                       |
| Total capital assets,<br>net of depreciation | \$ <u>8,510,925</u>                    | \$ <u>(17,770)</u> | \$ <u>48,971</u>   | \$ <u>8,444,184</u>                    |

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015

NOTE 5 – LONG TERM DEBT AND LEASES

The District issues revenue bonds to finance improvements and extensions to water lines. During 2016 and 2015 the District issued no new revenue bonds.

At December 31, 2016, East Clark County Water District had the following long term debt and leases outstanding:

2016 Bonds:

| <u>Description</u>  | <u>Balance</u><br><u>Dec. 31, 2015</u> | <u>New</u><br><u>Issue</u> | <u>Principal</u><br><u>Payment</u> | <u>Balance</u><br><u>Dec. 31, 2016</u> | <u>Due within</u><br><u>one year</u> |
|---|--|----------------------------|------------------------------------|--|--------------------------------------|
| East Clark County Water District Waterworks Bonds, Series of 1978, with interest of 5% payable January 1 and July 1                                       | \$ 35,000                              | \$ -                       | \$ 17,000                          | \$ 18,000                              | \$ 18,000                            |
| Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2010C Bonds, with interest of 2.2% to 4.35% payable January 1 and July 1   | 610,000                                | -                          | 35,000                             | 575,000                                | 35,000                               |
| Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2012C Bonds, with interest of 2.15% to 4.275% payable January 1 and July 1 | 445,000                                | -                          | 20,000                             | 425,000                                | 20,000                               |
| East Clark County Water District Water Works Refunding Bonds, Series 2013C, with interest of 2.3% to 4.8% payable January 1 and July 1                    | <u>110,000</u>                         | <u>-</u>                   | <u>10,000</u>                      | <u>100,000</u>                         | <u>10,000</u>                        |
|   | <u>\$ 1,200,000</u>                    | <u>\$ -</u>                | <u>\$ 82,000</u>                   | <u>\$ 1,118,000</u>                    | <u>\$ 83,000</u>                     |

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016 AND 2015

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

The debt service on the bonds is as follows:

| Due the year<br>ending<br><u>December 31,</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|---|---------------------|-------------------|---------------------|
| 2017  | \$ 83,000           | \$ 43,213         | \$ 126,213          |
| 2018  | 65,000              | 40,213            | 105,213             |
| 2019  | 70,000              | 37,911            | 107,911             |
| 2020  | 75,000              | 35,365            | 110,365             |
| 2021  | 70,000              | 32,759            | 102,759             |
| 2022-2026                                     | 395,000             | 118,379           | 513,379             |
| 2027-2031                                     | <u>360,000</u>      | <u>39,046</u>     | <u>399,046</u>      |
|   | <u>\$ 1,118,000</u> | <u>\$ 346,881</u> | <u>\$ 1,464,881</u> |

Capital leases

The District is obligated under financing arrangements accounted for as capital leases. These leases were entered to fund the development of waterlines. The cumulative amount of assets acquired under the leases amounts to \$2,514,533 with accumulated depreciation of \$1,086,367 and \$1,036,076 as of December 31, 2016 and 2015, respectively. Capital lease obligations and changes for 2016 are as follows:

|         | <u>Balance</u><br><u>December 31, 2015</u> | <u>Additions</u>  | <u>Payments</u>   | <u>Balance</u><br><u>December 31, 2016</u> | <u>Due in</u><br><u>one Year</u> |
|---------|--|-------------------|-------------------|--|----------------------------------|
| KACO #1 | \$ 33,000                                  | \$ -              | \$ 33,000         | \$ -                                       | \$ -                             |
| KACO #2 | 238,000                                    | -                 | 76,000            | 162,000                                    | 79,000                           |
| KACO #3 | <u>369,000</u>                             | <u>          </u> | <u>85,000</u>     | <u>284,000</u>                             | <u>90,000</u>                    |
|         | <u>\$ 640,000</u>                          | <u>\$ -</u>       | <u>\$ 194,000</u> | <u>\$ 446,000</u>                          | <u>\$ 169,000</u>                |

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016 AND 2015

NOTE 5 – LONG TERM DEBT AND LEASES (CONTINUED)

The following is a schedule of future minimum lease payments, together with the net present value of the minimum lease payments at December 31, 2016:

| <u>Year ending<br/>December 31,</u>  | <u>Lease<br/>Payments</u> |
|--|---------------------------|
| 2017   | \$ 182,250                |
| 2018   | 186,020                   |
| 2019   | <u>100,851</u>            |
| Total minimum lease payments   | 469,121                   |
| Less:  |                           |
| Amount representing interest at the<br>District’s incremental borrowing rate | <u>(23,121)</u>           |
|  | <u>\$ 446,000</u>         |

NOTE 6 – INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and customers; or acts of God. The District insures against these risks through insurance policies obtained from commercial vendors. The District has pooled its risk for worker’s compensation insurance. The District pays an annual premium for insurance coverage and is liable for additional premium assessments as determined by the pool. At December 31, 2016 and 2015, no additional premium assessment had been made. Other insurable risks are covered by policies with conventional insurance companies.

NOTE 7 - COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS)

**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:



EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016 AND 2015

NOTE 7 - COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

|        |                      |  |
|--------|----------------------|--|
| 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<br>At least 25 years' service and any age                 |
| Tier 2 | Participation date   | September 1, 2008 - December 31, 2013  |
|        | Unreduced retirement | At least 5 years' service and 65 years' old<br>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, 2013  |
|        | Unreduced retirement | At least 5 years' service and 65 years' old<br>Or age 57+ and sum of service years plus age equal 87 |
|        | Reduced retirement   | Not available  |

Health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance covered based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium. Hazardous members receive a contribution subsidy for both the member and dependent coverage. Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service. Hazardous retirees receive \$15 toward the monthly premium and the hazardous retiree's spouse may also receive this contribution upon the retiree's death.

The monthly insurance benefit has been increased annually by a Cost of Living Adjustment (COLA) since July 2004. 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 nonservice-related disability benefits.

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016 AND 2015

NOTE 7 - COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Contributions

Required contributions by the employee are based on the tier:

|        | <u>Required<br/>contribution</u> |
|--------|----------------------------------|
| Tier 1 | 5%                               |
| Tier 2 | 5% + 1% for<br>insurance         |
| Tier 3 | 5% + 1% for<br>insurance         |

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

At June 30, 2016, ECCWD reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by ECCWD as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with ECCWD were as follows:

|   |            |
|---|------------|
| ECCWD 's proportionate share of the net pension liability | \$ 471,091 |
|---|------------|

The net pension liability for each 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 as of that date.

The ECCWD'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, 2015, the ECCWD's proportion was 0.01096% percent.

For the year ended June 30, 2016, the ECCWD recognized pension expense of \$106,828 related to CERS. At June 30, 2016, ECCWD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016 AND 2015

NOTE 7 - COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience   | \$ 3,915                             | \$ -                                |
| Changes of assumptions   | 47,504                               | -                                   |
| Net difference between projected and actual earnings on pension plan investments                             | 4,223                                | -                                   |
| Changes in proportion and differences between ECCWD's contributions and proportionate share of contributions | 13,388                               | -                                   |
| Contributions subsequent to the measurement date   | 48,841                               | -                                   |
| <br>Total  | \$ 117,871                           | \$ -                                |

\$48,841 reported as deferred outflows of resources related to pensions resulting from ECCWD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

| Year ended June 30: |    |        |
|---------------------|----|--------|
| 2017                | \$ | 26,370 |
| 2018                | \$ | 26,370 |
| 2019                | \$ | 13,379 |
| 2020                | \$ | 2,912  |

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:

|  | CERS  |
|--|-------|
| Inflation  | 3.25% |
| Projected salary increases                                       | 4.00% |
| Investment rate of return, net of investment expense & inflation | 7.50% |

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016 AND 2015

NOTE 7 - COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS' 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  | 44.0%                    | 5.4%  |
| Combined Fixed income<br>Real Return<br>(Diversified Inflation Strategies) | 19.0%                    | 1.5%  |
| Real Estate<br>Absolute Return<br>(Diversified Hedge Funds)                | 10.0%                    | 3.5%  |
| Private Equity   | 5.0%                     | 4.5%  |
| Cash Equivalents   | 10.0%                    | 4.25%   |
|  | 10.0%                    | 8.5%  |
|  | 2.0%                     | (0.25%)                                       |
| Total  | <u>100.0%</u>            |   |

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 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers

EAST CLARK COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016 AND 2015

NOTE 7 - COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. 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 ECCWD, calculated using the discount rates selected by each pension system, as well as what ECCWD 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%<br>Decrease | Current<br>Discount Rate | 1%<br>Increase |
|---|----------------|--------------------------|----------------|
| CERS<br>ECCWD's proportionate share<br>of net pension<br>liability: | 6.50%          | 7.50%                    | 8.50%          |
| <b>Non-Hazardous</b>  | \$ 601,581     | \$ 471,091               | \$ 359,592     |

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.

Other Pension Plans

Also, ECCWD offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until their termination, retirement, death or unforeseeable emergency.

GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. ECCWD, therefore, does not report these assets and liabilities on its financial statements.

Employee contributions made to the 457 plan as of December 31, 2016, and 2015 were \$4,149 and \$4,702, respectively. ECCWD does not contribute to these plans.

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015

NOTE 8 - PURCHASED WATER

The District entered into a written agreement to purchase all its water from Winchester Municipal Utilities (WMU). The term of the contract is for twenty years ending July 15, 2019 with an option to renew for an additional period of twenty years. The District purchases water at \$1.72 per 100 cubic feet of water. This rate is subject to periodic increases by WMU. With the approval of the Public Service Commission, the District may pass these rate increases along to its customers. Water is delivered to the District by meters maintained by WMU.

NOTE 9 – SUBSEQUENT EVENT

The district has evaluated subsequent events through March 13, 2017, the date on which these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2016 and 2015

|   | 2016<br>Budget   | 2016<br>Actual   | Favorable<br>(Unfavorable) | 2015<br>Budget     | 2015<br>Actual    | Favorable<br>(Unfavorable) |
|---|------------------|------------------|----------------------------|--------------------|-------------------|----------------------------|
| Operating revenues:                       |                  |                  |                            |                    |                   |                            |
| Water sales                               | \$ 1,425,000     | \$ 1,390,053     | \$ (34,947)                | \$ 1,362,739       | \$ 1,399,366      | \$ 36,627                  |
| Other operating income                    | 45,000           | 36,759           | (8,241)                    | 37,261             | 38,263            | 1,002                      |
| Total operating revenues                  | <u>1,470,000</u> | <u>1,426,812</u> | <u>(43,188)</u>            | <u>1,400,000</u>   | <u>1,437,629</u>  | <u>37,629</u>              |
| Operating expenses:                       |                  |                  |                            |                    |                   |                            |
| Operation and maintenance                 | 1,062,000        | 1,061,512        | 488                        | 1,015,000          | 950,016           | 64,984                     |
| Depreciation and amortization             | 340,000          | 326,762          | 13,238                     | 332,000            | 314,732           | 17,268                     |
| Taxes                                     | 30,000           | 22,484           | 7,516                      | 33,300             | 25,896            | 7,404                      |
| Total operating expenses                  | <u>1,432,000</u> | <u>1,410,758</u> | <u>21,242</u>              | <u>1,380,300</u>   | <u>1,290,644</u>  | <u>89,656</u>              |
| Operating income                          | <u>38,000</u>    | <u>16,054</u>    | <u>(21,946)</u>            | <u>19,700</u>      | <u>146,985</u>    | <u>127,285</u>             |
| Non-operating revenues (expenses):        |                  |                  |                            |                    |                   |                            |
| Interest income                           | 6,000            | 7,870            | 1,870                      | 6,000              | 6,863             | 863                        |
| Sale/disposal of surplus equipment        | 8,000            | 7,985            | (15)                       | -                  | 3,240             | 3,240                      |
| State grants and customer connection fees | 32,000           | 36,160           | 4,160                      | 12,000             | 26,821            | 14,821                     |
| Interest expense                          | (69,000)         | (68,890)         | 110                        | (74,000)           | (70,804)          | 3,196                      |
| Total non-operating revenues (expenses)   | <u>(23,000)</u>  | <u>(16,875)</u>  | <u>6,125</u>               | <u>(56,000)</u>    | <u>(33,880)</u>   | <u>22,120</u>              |
| Change in net position                    | <u>\$ 15,000</u> | <u>\$ (821)</u>  | <u>\$ (15,821)</u>         | <u>\$ (36,300)</u> | <u>\$ 113,105</u> | <u>\$ 149,405</u>          |



EAST CLARK COUNTY WATER DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

|   | <u>Reporting Fiscal Year<br/>(Measurement Date)</u> | <u>Reporting Fiscal Year<br/>(Measurement Date)</u> |
|---|---|---|
|   | 2016<br>(2015)                                      | 2015<br>(2014)                                      |
| <b>COUNTY EMPLOYEES RETIREMENT SYSTEM:</b>  |   |   |
| <b>Non-Hazardous</b>  |   |   |
| ECCWD's proportion of the net pension liability   | 0.01096%  | 0.01044%  |
| ECCWD's proportionate share of the net pension liability  | \$ 471,091  | \$ 338,648  |
| ECCWD's covered-employee payroll  | \$ 242,808  | \$ 270,085  |
| ECCWD's proportionate share of the net pension liability<br>as a percentage of its covered-employee payroll | 194.018%  | 125.386%  |
| Plan fiduciary net position as a percentage of the total<br>pension liability                               | 59.97%  | 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 accompanying Notes to the required supplementary information

EAST CLARK COUNTY WATER DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

|   | 2015       | 2014       |
|---|------------|------------|
| <b>COUNTY EMPLOYEES RETIREMENT SYSTEM:</b>  |            |            |
| <b>Non-Hazardous</b>  |            |            |
| Contractually required contribution   | \$ 43,445  | \$ 46,844  |
| Contributions in relation to the contractually<br>required contribution                                     | 43,445     | 46,844     |
| Contribution deficiency (excess)  | -          | -          |
| ECCWD's covered-employee payroll  | \$ 242,808 | \$ 270,085 |
| ECCWD's proportionate share of the net pension liability<br>as a percentage of its covered-employee payroll | 17.89%     | 17.34%     |

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

See accompanying Notes to the required supplementary information

EAST CLARK COUNTY WATER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**COUNTY EMPLOYEES RETIREMENT SYSTEM:**

Actuarial Methods and Assumptions:

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

|                               |   |
|-------------------------------|---|
| Actuarial Cost Method         | Entry Age   |
| Amortization Method           | Level of Percentage of Payroll, closed                            |
| Remaining Amortization Period | 28 Years  |
| Asset Valuation Method        | 5 year Smoothed Market  |
| Inflation                     | 3.25%   |
| Salary Increase               | 4%, average, including Inflation                                  |
| Investment Rate of Return     | 7.5%, Net of Pension Plan Investment Expense, including Inflation |

Changes of Benefit Terms -

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

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

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

Changes of Assumptions:

The assumed investment rate was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

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

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

SUPPLEMENTARY INFORMATION

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

|                                 | Transmission,<br>Distribution,<br>and Services | Purchased<br>Water | General and<br>Administrative | Depreciation      | Total               |
|---------------------------------|--|--------------------|-------------------------------|-------------------|---------------------|
| Purchased water                 | \$ -   | \$ 325,345         | \$ -                          | \$ -              | \$ 325,345          |
| Depreciation                    | -  | -                  | -                             | 326,762           | 326,762             |
| Salaries                        | 152,920  | -                  | 102,249                       | -                 | 255,169             |
| Employee benefits               | 125,635  | -                  | 83,757                        | -                 | 209,392             |
| Supplies                        | 47,039   | -                  | 2,657                         | -                 | 49,696              |
| Repairs and maintenance         | 7,475  | -                  | 9,817                         | -                 | 17,292              |
| Outside services                | 8,549  | -                  | 25,312                        | -                 | 33,861              |
| Technology                      | 1,464  | -                  | -                             | -                 | 1,464               |
| Commissioners' salaries         | -  | -                  | 30,000                        | -                 | 30,000              |
| Payroll tax expense             | 13,490   | -                  | 8,994                         | -                 | 22,484              |
| Professional fees               | -  | -                  | 20,425                        | -                 | 20,425              |
| Utilities                       | 20,215   | -                  | 8,262                         | -                 | 28,477              |
| Truck expense                   | 19,487   | -                  | 1,564                         | -                 | 21,051              |
| Equipment rental                | 611  | -                  | -                             | -                 | 611                 |
| Insurance                       | -  | -                  | 28,213                        | -                 | 28,213              |
| Postage                         | -  | -                  | 14,373                        | -                 | 14,373              |
| Bad debts                       | -  | -                  | 5,426                         | -                 | 5,426               |
| Miscellaneous                   | -  | -                  | 9,499                         | -                 | 9,499               |
| Telephone                       | 3,660  | -                  | 2,751                         | -                 | 6,411               |
| Dues and subscriptions          | -  | -                  | 294                           | -                 | 294                 |
| Loading station expense         | 1,365  | -                  | -                             | -                 | 1,365               |
| Employee training and seminars  | -  | -                  | 5,384                         | -                 | 5,384               |
| PSC assessment                  | -  | -                  | 2,790                         | -                 | 2,790               |
| Uniforms                        | -  | -                  | 1,852                         | -                 | 1,852               |
| Lab testing                     | 5,286  | -                  | -                             | -                 | 5,286               |
| Travel and meals expense        | -  | -                  | 747                           | -                 | 747                 |
| Capitalized overhead allocation | (12,911)                                       | -                  | -                             | -                 | (12,911)            |
|                                 | <u>\$ 394,285</u>                              | <u>\$ 325,345</u>  | <u>\$ 364,366</u>             | <u>\$ 326,762</u> | <u>\$ 1,410,758</u> |

EAST CLARK COUNTY WATER DISTRICT  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015

|                                 | Transmission,<br>Distribution, and<br>Services | Purchased Water   | General and<br>Administrative | Depreciation      | Total               |
|---------------------------------|--|-------------------|-------------------------------|-------------------|---------------------|
| Purchased water                 | \$ -   | \$ 326,081        | \$ -                          | \$ -              | \$ 326,081          |
| Depreciation                    | -  | -                 | -                             | 314,732           | 314,732             |
| Salaries                        | 148,907  | -                 | 114,729                       | -                 | 263,636             |
| Employee benefits               | 63,948   | -                 | 49,270                        | -                 | 113,218             |
| Supplies                        | 45,704   | -                 | 9,111                         | -                 | 54,815              |
| Repairs and maintenance         | 5,105  | -                 | -                             | -                 | 5,105               |
| Outside services                | 12,902   | -                 | 14,291                        | -                 | 27,193              |
| Technology                      | 550  | -                 | -                             | -                 | 550                 |
| Commissioners' salaries         | -  | -                 | 30,000                        | -                 | 30,000              |
| Payroll tax expense             | 14,627   | -                 | 11,269                        | -                 | 25,896              |
| Professional fees               | -  | -                 | 19,150                        | -                 | 19,150              |
| Utilities                       | 22,767   | -                 | 7,597                         | -                 | 30,364              |
| Truck expense                   | 19,732   | -                 | 2,103                         | -                 | 21,835              |
| Equipment rental                | 651  | -                 | -                             | -                 | 651                 |
| Fuel for equipment              | 1,149  | -                 | -                             | -                 | 1,149               |
| Insurance                       | -  | -                 | 27,449                        | -                 | 27,449              |
| Postage                         | -  | -                 | 12,342                        | -                 | 12,342              |
| Bad debts                       | -  | -                 | 2,967                         | -                 | 2,967               |
| Miscellaneous                   | -  | -                 | 940                           | -                 | 940                 |
| Telephone                       | 3,388  | -                 | 4,158                         | -                 | 7,546               |
| Dues and subscriptions          | -  | -                 | 2,274                         | -                 | 2,274               |
| Loading station expense         | 1,008  | -                 | -                             | -                 | 1,008               |
| Employee training and seminars  | -  | -                 | 614                           | -                 | 614                 |
| PSC assessment                  | -  | -                 | 2,874                         | -                 | 2,874               |
| Uniforms                        | -  | -                 | 1,901                         | -                 | 1,901               |
| Lab testing                     | 4,911  | -                 | -                             | -                 | 4,911               |
| Travel and meals expense        | -  | -                 | 810                           | -                 | 810                 |
| Capitalized overhead allocation | (9,367)  | -                 | -                             | -                 | (9,367)             |
|                                 | <u>\$ 335,982</u>                              | <u>\$ 326,081</u> | <u>\$ 313,849</u>             | <u>\$ 314,732</u> | <u>\$ 1,290,644</u> |

**SUMMERS, MCCRARY & SPARKS, P.S.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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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  
East Clark County Water District  
Winchester, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the East Clark County Water District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the East Clark County Water District's basic financial statements, and have issued our report thereon dated March 13, 2017.

**Internal Control over Financial Reporting**

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

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

## **Purpose of this Report**

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

*Summers, McCrary & Sparks, PSC*

Winchester, KY  
March 13, 2017