

ESTILL COUNTY WATER DISTRICT NO. 1

FINANCIAL REPORT

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-5
FINANCIAL STATEMENTS	
Statements of net assets	6
Statements of revenues, expenses and changes in net assets	7
Statements of cash flows	8
Notes to financial statements	9-13
SUPPLEMENTARY INFORMATION	
Schedule of revenue bond debt service	14
REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS	
Report on internal control over financial reporting and on compliance and other matters bases on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	15
Independent accountant's report on applying agreed-upon procedures	16

Ludwig, Blair & Bush, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

David G. Bush, CPA
Proctor W. Blair, CPA

Carlean G. Hefner, CPA
Ellis L. Hefner, CPA

Charles J. Ludwig, CPA
(1923 - 2009)

Member: American Institute of
Certified Public Accountants

47 S. Main Street • P.O. Box 598
Winchester, Kentucky 40392-0598

Phone (859) 744-4232

Fax (859) 744-5712

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Estill County Water District No. 1
Irvine, Kentucky

We have audited the accompanying statements of financial position of the Estill County Water District No. 1, as of and for the years ended December 31, 2016 and 2015, which collectively comprise the Estill County Water District #1 basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Estill County Water District No. 1, as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2017, on our consideration, of the Estill County Water District No. 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinions on the financial statements taken as a whole. The supplemental information shown on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements of the Estill County Water District No. 1. The accompanying supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Judwig, Blair & Bush, PLLC

Winchester, Kentucky
November 18, 2017

**ESTILL COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Years ended December 31, 2016 and 2015

This discussion and analysis is intended to be an easily readable analysis of the Estill County Water District's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements and notes that follow. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS

- In 2016, the District's net position decreased by \$247,414.00, or 4.95%.
- In 2016, revenues increased by \$32,368.00, or 2.10%.
- Total expenses decreased by \$39,678.00, or 2.63% in 2016.
- Principal payments on long-term debt amounted to \$124,200.00 in 2016, compared to \$92,100 in 2015.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of the management's discussion and analysis and the basic financial statements. The financial statements include notes that explain information included in the basic financial statements.

FINANCIAL STATEMENTS

The financial statements report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The financial statements also include a statement of cash flows, which presents sources and uses of cash and changes in cash balances during the fiscal year.

**ESTILL COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Years ended December 31, 2016 and 2015

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

NET POSITION

A summary of the District's statement of net position as of December 31, 2016 and 2015 is presented below:

	2016 Amount	2015 Amount	Net Dollar Change	Net Percentage Change
Current and other assets	155,435	203,447	(48,109)	-23.64%
Restricted assets	174,882	228,754	(53,872)	-23.55%
Property, Plant, & Equipment net of accumulated Depreciation	15,811,449 (7,002,845)	15,811,449 (6,697,623)	0 (305,222)	0% 4.56%
Total Assets	9,138,921	9,546,124	(407,203)	-4.27%
Current Liabilities	168,646	169,024	(378)	-.22%
Long Term Debt	4,075,500	4,199,700	(124,200)	-2.96%
Total Liabilities	4,368,724	4,244,146	(124,578)	-2.85%
Invested in capital assets	8,075,014	7,966,250	108,764	1.37%
Restricted net positions	174,882	228,754	(53,872)	-23.55%
Unrestricted (deficit) net positions	(3,552,258)	(3,249,952)	(302,306)	9.30%
Total Net Assets	4,697,638	4,945,052	(247,414)	(5.00)%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

A summary of the District's statement of revenues, expenses and changes in net position for the year ended December 31, 2016 and 2015 is presented below:

	2016 Amount	2015 Amount	Net Dollar Change	Net Percentage Change
Operating revenue	1,572,899	1,540,531	32,368	2.10%
Total revenue	1,572,899	1,540,531	32,368	2.10%
Depreciation expenses	305,252	391,297	(39,678)	-2.63%
Operating expense	1,467,645	1,507,323	85,288	6.04%
Non operating expense	156,180	176,004	(19,824)	-11.26%
Total expense	1,929,077	2,074,624	(145,547)	-7.02%
Grants & Capital Contributions	108,764	164,875	(56,111)	-34.03%
Net (Loss) Income	(356,178)	(534,093)	177,915	-33.31%
Net position, beginning	4,999,256	5,368,474	(369,218)	-6.88%
Net position, ending	4,940,610	4,999,256	(247,414)	-4.95%

**ESTILL COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Years ended December 31, 2016 and 2015

As reported on the statement of revenues, expenses, and changes in net position, net position decreased by \$ 247,414 for the year 2016.

CAPITAL ASSETS

On December 31, 2016, the District's investment in capital assets, net of depreciation, totaled \$16,141,766, which is a decrease of \$101,981, or -0.63%, over the capital asset balance of \$16,243,747 at December 31, 2015.

LONG-TERM DEBT

As of December 31, 2016, the District had long-term debt of \$4,075,500 compared to \$4,199,700 at December 31, 2015, including current portion. During the year ended December 31, 2016, the District paid \$124,200 of principal payments on the long-term debt compared to \$92,100 in 2015.

OTHER SIGNIFICANT MATTERS

In 2015 the Estill County Water District #1 (the District) developed project profiles for emergency regional interconnects with Beattyville, Madison County and Richmond Utilities Services. The project will allow the District to purchase wholesale water, in the event of an emergency, from the two neighboring cities. The project is still viable, and negotiations are still ongoing. In 2016 the District took on a new approach to its ongoing water loss issue. As water loss quickly became the main priority, the District took several steps, to lower the systems water loss percentage, such as hydrostatic tank tests, testing individual water meters, check valve replacements, flow monitoring at the river crossing, testing all master meters for accuracy, identifying non-metered connections and disconnecting them, installing isolation valves, and replacing leaking pumps. As the District's efforts have yielded a small amount of improvement, there is now an even greater emphasis on lowering the District's water loss and management in committed to increase its water loss efforts moving forward.

CONTACT INFORMATION

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning this report or request for additional information should be addressed to the Office Manager, Audrea Miller, at Estill County Water District, Irvine, Kentucky, 40336 or by calling (606) 723-3795.

ESTILL COUNTY WATER DISTRICT NO. 1

STATEMENTS OF NET ASSETS

December 31, 2016 and 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash	\$ - -	\$ - -
Accounts receivables, less allowance for doubtful accounts 2016 \$14,804; 2015 \$14,517	196,678	193,428
Material and supplies	40,176	40,176
Prepaid expenses	20,580	17,097
Intercompany loans	<u>12,341</u>	<u>14,385</u>
Total current assets	<u>269,775</u>	<u>265,086</u>
RESTRICTED ASSETS		
Cash	103,800	161,662
Customer deposits	<u>71,082</u>	<u>67,092</u>
Total restricted assets	<u>174,882</u>	<u>228,754</u>
PROPERTY, PLANT AND EQUIPMENT		
Utility systems	15,785,279	13,256,218
Construction in progress	<u>26,170</u>	<u>2,555,231</u>
	15,811,449	15,811,449
Less accumulated depreciation	<u>(7,002,875)</u>	<u>(6,697,623)</u>
	8,808,574	9,113,826
OTHER ASSETS		
Bond issue costs, net of amortization	<u>10,164</u>	<u>10,527</u>
Total assets	<u>\$ 9,263,395</u>	<u>\$ 9,618,193</u>

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

LIABILITIES AND EQUITY	2016	2015
CURRENT LIABILITIES		
Accounts payable	\$ 18,945	\$ 18,221
Overdrafted accounts	114,340	61,542
Other accrued liabilities	<u>5,251</u>	<u>8,343</u>
Total current liabilities	138,536	88,106
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest on bonds	73,368	75,923
Customer deposits	71,082	67,092
Current portion of long-term debt	<u>248,430</u>	<u>159,199</u>
Total current liabilities payable from restricted assets	<u>392,880</u>	<u>302,214</u>
LONG-TERM DEBT, less current portion	<u>4,034,341</u>	<u>4,282,821</u>
Total liabilities	<u>4,565,757</u>	<u>4,673,141</u>
NET ASSETS		
Invested in capital assets, net of related debt	8,075,014	7,966,250
Retained earnings (deficit)		
Restricted	174,882	228,754
Unrestricted	<u>(3,552,258)</u>	<u>(3,249,952)</u>
Total net assets	<u>4,697,638</u>	<u>4,945,052</u>
	<u>\$ 9,263,395</u>	<u>\$ 9,618,193</u>

ESTILL COUNTY WATER DISTRICT NO. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Water - residential	\$ 1,387,514	\$ 1,363,292
Water - commercial	119,295	110,190
Other operating income	66,090	67,049
Total operating revenue	<u>1,572,899</u>	<u>1,540,531</u>
OPERATING EXPENSES		
Water purchases	660,218	687,537
Salaries and wages	311,155	314,556
Employee benefits	203,595	189,953
Power purchases	68,615	70,650
Operation materials	13,344	18,476
Office supplies and postage	29,245	26,598
Legal and accounting	15,953	17,039
Engineering	7,300	8,261
Advertising	99	143
Contract - other	18,287	16,687
Transportation	16,386	23,143
Insurance	22,279	25,107
Unemployment insurance	2,945	6,879
Depreciation	305,252	391,297
PSC assessment	2,250	5,267
Utilities	8,075	6,557
Maintenance	68,609	65,287
Miscellaneous	18,151	14,566
Total operating expenses	<u>1,771,758</u>	<u>1,888,003</u>
OPERATING (LOSS)	<u>(198,859)</u>	<u>(347,472)</u>
NONOPERATING INCOME (EXPENSE)		
Interest income	101	234
Interest expense	(156,281)	(176,238)
Other	(1,139)	(256)
Total nonoperating (expense)	<u>(157,319)</u>	<u>(176,260)</u>
NET (LOSS) BEFORE CONTRIBUTIONS	(356,178)	(523,732)
GRANTS AND CAPITAL CONTRIBUTIONS	<u>108,764</u>	<u>164,875</u>
NET (LOSS) INCOME	(247,414)	(358,857)
NET ASSETS, BEGINNING OF YEAR	<u>4,945,052</u>	<u>5,303,909</u>
NET ASSETS, END OF YEAR	<u>\$ 4,697,638</u>	<u>\$ 4,945,052</u>

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

ESTILL COUNTY WATER DISTRICT NO. 1

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

CASH FLOWS FROM OPERATING ACTIVITIES	2016	2015
Receipts from customers	\$ 1,575,683	\$ 1,579,877
Payments to suppliers	(1,119,173)	(1,001,030)
Payments to employees	(511,657)	(496,621)
Other receipts (payments)	(1,139)	(256)
Net cash provided by operating activities	<u>(56,286)</u>	<u>81,970</u>
CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Loan proceeds	- -	100,305
Long-term debt payments	(159,249)	(300,843)
Purchase of property, plant and equipment	- -	(121,485)
Contributed capital - Tap on fees	20,460	21,153
Contributed capital - Grants	88,304	143,722
Net cash (used) in capital and related financing activities	<u>(50,485)</u>	<u>(157,148)</u>
CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
Cash from interest	<u>101</u>	<u>234</u>
NET (DECREASE)INCREASE IN CASH	(106,670)	(74,944)
CASH, BEGINNING OF YEAR	167,212	242,156
CASH, ENDING OF YEAR	<u>\$ 60,542</u>	<u>\$ 167,212</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating (loss)	\$ (354,777)	\$ (347,472)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	305,252	391,297
Cash from other income	(1,139)	(256)
(Increase) decrease in current assets:		
Accounts receivable, customers	(3,250)	(3,194)
Other receivables	2,044	38,063
Materials and supplies	- -	(10,837)
Prepaid expenses	(3,483)	2,675
(Decrease) increase in current liabilities:		
Accounts payable	724	2,775
Accrued liabilities	(5,647)	4,442
Customer deposits	3,990	4,477
Net cash provided by operating activities	<u>\$ (56,286)</u>	<u>\$ 81,970</u>
NONCASH TRANSACTIONS AFFECTING FINANCIAL POSITION		
Contributions of fixed assets	<u>\$ 20,460</u>	<u>\$ 21,153</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Estill County Water District No. 1 is an agency of the Estill County Fiscal Court. The Water District is governed by a Board of Commissioners appointed by the Estill County Fiscal Court.

The Estill County Water District No. 1 applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The District also applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before December 31, 2006, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Method of Accounting

The Estill County Water District No. 1 is accounted for as a governmental enterprise fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis which are financed primarily through user charges. The accounts are maintained on the accrual basis of accounting.

Fixed assets

Fixed assets are recorded at cost and depreciated on a straight line basis over their estimated useful lives. See Note 2 for classification of fixed assets.

Nonmonetary Transactions

The Estill County Water District No. 1 accepts utility installations built by contractors upon inspection. The utility installations are added to fixed assets and contributed capital at the contractor's cost.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Amortization

Bond issue costs are being amortized and charged to expense over the life of the outstanding revenue bonds by use of the straight-line method.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash equivalents

For the purpose of the statements, the District considers all investments with a maturity of three months or less when purchased to be cash equivalents.

Materials and supplies

Materials and supplies are stated at cost. Cost is determined using the "first-in, first-out" method.

NOTE 2. FIXED ASSETS

Classification of fixed assets as of December 31, 2016 and 2015 consisted of the following:

	2016	2015
Land and structures	\$ 1,606,331	\$ 1,606,331
Pumping and distribution equipment	12,022,580	9,493,519
Services and meters	1,778,913	1,778,913
Other plant equipment	33,112	33,112
Office equipment and furniture	51,349	51,349
Transportation equipment	158,784	158,784
Other general equipment	134,210	134,210
	\$ 15,785,279	\$ 13,256,218

Depreciation expense charged to operations during the years ended December 31, 2016 and 2015 amounted to \$305,252 and \$391,297 respectively.

NOTE 3. CASH AND INVESTMENTS

Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state chartered banks insured by federal agencies. Larger amounts can be deposited in savings and loan associations and banks providing such institutions pledge obligations of the United States government or its agencies as security.

As of December 31, 2016 and 2015 the District is in compliance with this requirement.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. LONG-TERM DEBT

The Estill County Water District No. 1's bonded indebtedness and other long-term notes at December 31, 2016 are summarized as follows:

	Rate	Original Issue	Total 2016	Total 2015
1976 Issue	5.00%	\$ 350,000	\$ 0	\$ 20,000
1991 Issue Series A	5.00%	521,000	318,000	332,000
1991 Issue Series B	5.00%	101,000	62,500	65,200
1996 Issue	4.50%	505,000	363,500	374,500
2000 Issue	4.50%	975,000	764,000	783,000
2002 Issue	3.00% - 4.75%	230,000	66,000	81,000
2006 Issue	4.125%	945,000	830,000	845,000
2014 Issue	2.375%	1,699,000	1,671,500	1,699,000
			4,075,500	4,199,700
Citizens Guaranty	3.85%	200,305	128,280	151,990
Citizens Guaranty	3.85%	100,305	78,991	90,330
			4,282,771	4,442,020
Less current maturities			108,400	159,199
			<u>\$ 4,174,371</u>	<u>\$ 4,282,821</u>

All bond interest is payable semiannually on February 1st and August 1st, all principal payments are payable annually on February 1st.

The combined bond debt service requirements, as of December 31, 2016 are as follows:

Year	Principal	Interest	Total
2017	\$ 108,400	144,914	\$ 253,314
2018	111,500	140,539	252,039
2019	117,200	135,971	253,171
2020	120,800	131,183	251,983
2021	108,000	126,632	234,632
Thereafter	3,509,600	1,589,246	5,098,846
	<u>\$ 4,075,500</u>	<u>\$ 2,268,485</u>	<u>\$ 6,343,985</u>

The Citizen's Guaranty note payable debt service requirements, as of December 31, 2015 are as follows:

Year	Principal	Interest	Total
2017	\$ 140,030	6,654	\$ 146,684
2018	12,211	2,374	14,585
2018	55,030	180	55,210
	<u>\$ 207,271</u>	<u>\$ 9,208</u>	<u>\$ 216,479</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION FUND

The Estill County Water District is a participating employer of the County Employee's Retirement System (CERS), which is a multi-employer defined benefit plan that covers substantially all regular full-time employees of the District. Retirement benefits are provided for through legislative action of the Kentucky General Assembly and are funded by employee contributions which are deducted from employees' wages and by employer-paid contributions. The General Assembly sets the employee contributions rates, currently 5%, and the Retirement Systems' Board of Trustees sets the employer contribution rates, currently 21.97%. Each employer is notified prior to each fiscal year of any change in the contribution rates.

The Retirement Systems' administrative expenses are subject to approval by the Kentucky General Assembly and are paid from the State's Retirement Allowance Account.

Employer contributions for the years ended December 31, 2016 and 2015, under the current plan, amounted to \$54,879 and \$52,165.

NOTE 7. COMPENSATED ABSENCES

The Estill County Water District's vacation policy entitles an employee to two weeks of vacation time after one full year of employment, three weeks with fifteen years of service and four weeks with twenty years of service. At the end of each year employees are paid for any unused vacation time.

The District's personal/sick leave policy allows for six personal days and six sick days after one year of full time employment. Employees may carry over no more than fifteen personal and sick days from one year to the next. Any unused personal days will be transferred to vacation days in December to replace any vacation days used and employees are compensated accordingly. Any unused sick days over the fifteen are lost at the end of each year.

NOTE 8. COMPLIANCE WITH BOND ORDINANCE

The 2014, 2006, 2002, 2000, 1996, and 1991 bonds are all on parity with each other. However, these bonds are also subject to the vested rights and priorities in favor of the 1964 and 1976 bond issues. The 1976 bond issue is subject to the vested rights and priorities in favor of the 1964 bond issue. While the 1964 bond issue takes priority over all other water bond issues.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. COMPLIANCE WITH BOND ORDINANCE (CONTINUED)

Bond Debt Service

All of the bond issues require the Estill County Water District No. 1 to set aside in a sinking fund monthly deposits equal to one-sixth of the next interest payment and one-twelfth of the next principal payment. The 1964, 1976 and 2002 water bond issues also require a bond reserve account be established for use in payment of the bonds. The 1964 issue's reserve account needs to be maintained in the amount of \$34,800, while the 1976 bond issue reserve account must maintain a balance of \$21,600. The 1984 bond issue required the amount of \$21,600 be increased to \$41,600. However, the 1984 bond issue was refinanced in July 2002, and the new issue required that this reserve fund continue to be maintained at \$41,600. At or after the 2014 bonds have been issued there shall be transferred from the Construction Account into the Current Sinking Fund an amount estimated to be \$26,000, to provide for capitalized interest during the construction of the Project. All of these reserve accounts must be maintained as long as there are any outstanding bond issues.

Depreciation Reserve

The 1964, 1976 and 2002 water bond issues requires the Estill County Water District No. 1 to accumulate an amount up to \$27,000, to be used for renewals, replacements and/or additions to property, plant and equipment. The 1991 water bond issue series A and B require the District to accumulate an amount up to \$37,200 in the depreciation reserve account, while the 1996 water bond issue requires a balance of \$65,400 be accumulated in a depreciation reserve account. The 2000 water bond issue requires the District to transfer \$455 monthly into a depreciation reserve account for the life of the bond issue. The 2006 water bond issue required the District to transfer \$425 monthly into a depreciation reserve account until there is accumulated a sum of at least \$51,000. Since the 2014 Bond issue is in parity with the 2006 Bond issue those provisions require that an adjustment be made to the Depreciation transfer amount. This amount is to be \$585, paid each month and deposited into the Depreciation Fund until an amount of \$70,200 is accumulated in such Fund. This monthly requirement for the 2006 bond issue is scheduled to start upon completion of the project as certified by the engineers and by RD.

Operations and Maintenance Account

The 1964, 1976 and 1991 water bond issues require the Estill County Water District No. 1 to place 90% of the remaining revenues, after the above mentioned transfers have been made, into an operations and maintenance account to be used for operations and maintenance expenses of the property, plant and equipment. While the 1996, 2000, 2002, 2006 and 2014 water bond issues require the District to set aside out of the remaining revenues an amount equal to two months operations, based on the District's estimated budget.

The Estill County Water District No. 1 is not in substantial compliance with the bond ordinances.

ESTILL COUNTY WATER DISTRICT NO. 1

SCHEDULE OF REVENUE BOND DEBT SERVICE
For the Year Ended December 31, 2016

Maturity Date	2014 Issue		2006 Issue		2002 Issue		2000 Issue	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	28,000	39,698	15,000	33,928	16,000	2,682	20,000	33,930
2018	28,500	39,033	16,000	33,289	16,000	1,962	20,000	33,030
2019	29,500	38,356	17,000	32,608	17,000	1,203	22,000	32,085
2020	30,000	37,656	17,000	31,907	17,000	404	22,000	31,095
2021	31,000	36,943	18,000	31,185			24,000	30,060
2022	31,500	36,207	19,000	30,422			24,000	28,980
2023	32,500	35,459	20,000	29,618			26,000	27,855
2024	33,500	34,687	20,000	28,792			27,000	26,663
2025	34,000	33,891	21,000	27,947			28,000	25,425
2026	35,000	33,084	22,000	27,060			29,000	24,142
2027	36,000	32,253	23,000	26,132			31,000	22,793
2028	36,500	31,398	24,000	25,162			32,000	21,375
2029	37,500	30,531	25,000	24,152			33,000	19,912
2030	38,500	29,640	26,000	23,100			35,000	18,383
2031	39,500	28,726	27,000	22,007			36,000	16,785
2032	40,500	27,788	28,000	20,872			38,000	15,120
2033	41,500	26,826	29,000	19,697			40,000	13,365
2034	42,500	25,840	31,000	18,459			41,000	11,542
2035	43,500	24,831	32,000	17,160			44,000	9,630
2036	44,500	23,798	33,000	15,819			45,000	7,628
2037	46,000	22,741	35,000	14,417			48,000	5,535
2038	47,000	21,648	36,000	12,952			49,000	3,352
2039	48,000	20,532	37,000	11,447			50,000	1,125
2040	49,500	19,392	39,000	9,879				
2041	50,500	18,216	41,000	8,229				
2042	52,000	17,017	42,000	6,518				
2043	53,000	15,782	44,000	4,744				
2044	54,500	14,523	46,000	2,888				
2045	56,000	13,229	47,000	969				
2046	57,500	11,899						
2047	58,500	10,533						
2048	60,000	9,144						
2049	61,500	7,719						
2050	63,000	6,258						
2051	65,000	4,762						
2052	66,500	3,218						
2053	69,000	1,639						
	<u>\$ 1,671,500</u>	<u>\$ 864,897</u>	<u>\$ 830,000</u>	<u>\$ 591,359</u>	<u>\$ 66,000</u>	<u>\$ 6,251</u>	<u>\$ 764,000</u>	<u>\$ 459,810</u>

1996 Issue		1991 Issue Series A		1991 Issue Series B		Totals	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
11,500	16,099	15,000	15,525	2,900	3,052	108,400	144,914
12,000	15,570	16,000	14,750	3,000	2,905	111,500	140,539
12,500	15,019	16,000	13,950	3,200	2,750	117,200	135,971
13,500	14,434	18,000	13,100	3,300	2,587	120,800	131,183
13,500	13,826	18,000	12,200	3,500	2,418	108,000	126,632
14,500	13,196	19,000	11,275	3,600	2,240	111,600	122,320
15,000	12,532	20,000	10,300	3,900	2,053	117,400	117,817
16,000	11,835	21,000	9,275	4,100	1,853	121,600	113,105
16,500	11,104	22,000	8,200	4,300	1,642	125,800	108,209
17,000	10,350	23,000	7,075	4,500	1,423	130,500	103,134
18,000	9,562	24,000	5,900	4,700	1,192	136,700	97,832
19,000	8,730	25,000	4,675	5,000	950	141,500	92,290
19,500	7,864	26,000	3,400	5,200	695	146,200	86,554
20,500	6,964	27,000	2,075	5,500	428	152,500	80,590
21,500	6,019	28,000	700	5,800	145	157,800	74,382
22,500	5,029					129,000	68,809
23,500	3,994					134,000	63,882
24,500	2,913					139,000	58,754
25,500	1,788					145,000	53,409
27,000	607					149,500	47,852
						129,000	42,693
						132,000	37,952
						135,000	33,104
						88,500	29,271
						91,500	26,445
						94,000	23,535
						97,000	20,526
						100,500	17,411
						103,000	14,198
						57,500	11,899
						58,500	10,533
						60,000	9,144
						61,500	7,719
						63,000	6,258
						65,000	4,762
						66,500	3,218
						69,000	1,639
<u>\$ 363,500</u>	<u>\$ 187,435</u>	<u>\$ 318,000</u>	<u>\$ 132,400</u>	<u>\$ 62,500</u>	<u>\$ 26,333</u>	<u>\$ 4,075,500</u>	<u>\$ 2,268,485</u>

Ludwig, Blair & Bush, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

David G. Bush, CPA
Proctor W. Blair, CPA
Carlean G. Hefner, CPA
Ellis L. Hefner, CPA

Member: American Institute of
Certified Public Accountants

47 S. Main Street • P.O. Box 598
Winchester, Kentucky 40392-0598
Phone (859) 744-4232
Fax (859) 744-5712

Charles J. Ludwig, CPA
(1923 - 2009)

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Estill County Water District No. 1
Irvine, Kentucky

We have audited the accompanying statements of financial position of the Estill County Water District No. 1, as of and for the year ended December 31, 2016, and have issued our report thereon dated November 18, 2017. 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.

Compliance

As part of obtaining reasonable assurance about whether the Estill County Water District No. 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Estill County Water District No. 1's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Winchester, Kentucky
November 18, 2017

Ludwig, Blair & Bush, PLLC

Ludwig, Blair & Bush, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

David G. Bush, CPA
Proctor W. Blair, CPA

Carlean G. Hefner, CPA
Ellis L. Hefner, CPA

Charles J. Ludwig, CPA
(1923 - 2009)

Member: American Institute of
Certified Public Accountants

47 S. Main Street • P.O. Box 598
Winchester, Kentucky 40392-0598

Phone (859) 744-4232

Fax (859) 744-5712

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Commissioners
Estill County Water District No. 1
Irvine, Kentucky

We have performed the procedure described in the second paragraph of this report, which was agreed to by the Estill County Water District No. 1 and the Public Service Commission of the Commonwealth of Kentucky, solely to assist them in determining whether the electronic submission of certain information agrees with the related hard copy documents. The Estill County Water District No. 1 is responsible for accuracy and completeness of the electronic submission. This agreed-upon procedure agreement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submissions with the corresponding printed documents. Thus, the result of our performance of our agreed-upon procedures indicate no differences between the electronically submitted information and the hard copy documents.

We were engaged to perform an audit of the financial statements of the Estill County Water District No. 1 as of and for the year ended December 31, 2016, and have issued our report thereon dated November 18, 2017. The information included in the hard copy documents was included within the scope, or was a by-product of that audit. Further, our opinion on the fair presentation of the supplemental financial data templates dated November 18, 2017, was expressed in relation to the basic financial statements of the Estill County Water District No. 1 taken as a whole.

A copy of the financial statement package, which includes the auditor's reports, is available in its entirety from the Estill County Water District No. 1. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the Public Service Commission of the Commonwealth of Kentucky.

This report is intended solely for the information and use of the Estill County Water District No. 1 and the Public Service Commission of the Commonwealth of Kentucky, and is not intended to be and should not be used by anyone other than these specified parties.

Ludwig, Blair & Bush, PLLC

Winchester, Kentucky
November 18, 2017