

CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT
COMPILED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

ACCOUNTANT'S COMPILATION REPORT

To the Board of Commissioners
Crittenden-Livingston County Water District
Salem, Kentucky

Management is responsible for the accompanying financial statements of the business-type activities of Crittenden-Livingston 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. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

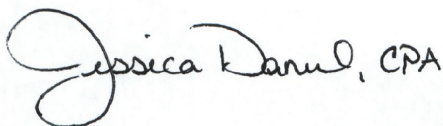
Supplementary Information

Accounting principles generally accepted in the United States of America require that the following supplementary information be presented to supplement the basic financial statements:

- Budgetary Comparison Schedule
- Management's Discussion and Analysis
- Schedule of Proportionate Share of Net Pension Liability
- Schedule of Pension Contributions
- Notes to Required Supplementary Information

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 not audited or reviewed the information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on such information.

We are not independent with respect to Crittenden-Livingston County Water District.



Eddyville, Kentucky
August 14, 2017

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

The Crittenden-Livingston County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the years ended December 31, 2016. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources of the District exceed its total liabilities and deferred inflows of resources at December 31, 2016, by \$7,547,434 (Net Position). Of this amount \$1,368,776 is restricted and \$7,189,938 is invested in capital assets net of the related debt, leaving negative unrestricted net position of \$1,011,280.
- The District's net position decreased by \$271,976 resulting in a December 31, 2016 balance of \$7,547,434. This balance represents a change of 3.5% decrease in net position over the December 31, 2015 adjusted balance of \$7,819,410.
- The District's 2016 operating revenues of \$2,291,704 increased slightly from the 2015 amount and operating expenses for 2016 of \$2,092,651 increased 8.8%. Non-operating income for 2016, consisted of interest income of \$507, insurance proceeds of \$12,841 and capital contributions consisted of tap on fees of \$24,750.
- The District's unrestricted cash available for operating expenses was \$45,868 at December 31, 2016.
- The District's investment in capital assets was \$19,436,138 net of depreciation at December 31, 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the Crittenden Livingston Water District.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Auditing Standards Board (GAB).

Statement of net position. The statement of net position presents the financial position of the District. It presents information on the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is displayed in three components: net investment in capital assets, restricted (distinguished between major categories of restrictions) and unrestricted. 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 net position can be found on page 8.

Statement of revenues, expenses and changes in net position. 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. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 9 of this report.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 10.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 11-32 of this report.

Required Supplementary Information. In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on page 34-37.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$7,547,434 at December 31, 2016. Beginning net position was adjusted due to the correction of prior year errors. A total increase of \$91,438 was made to beginning net position to account for prior year inventory and bad debts.

For the current year, the District reported a net loss of \$271,976. The most significant component of this loss was an increase in transmission and distribution expenses from the prior year of \$102,192. Of that amount, salaries increased \$58,216 and repairs and maintenance expenses increased \$43,782.

During 2016, the District's net capital assets decreased \$41,820 and total debt liabilities decreased by \$77,342. Unrestricted net position decreased \$612,264, from a negative \$401,686 at December 31, 2015, to a negative \$1,011,280 at December 31, 2016.

The District noted operating revenue consistent with prior year of \$2,291,704, a slight increase from the 2015 revenue of \$2,255,695. Operating expenses increased \$170,077 from the 2015 amount of \$1,925,244. Interest expense increased \$20,513 from 2015. The total interest expense recognized in 2016 was \$509,127.

The District entered into an agreement with Kentucky Infrastructure Authority to finance the Moore Hill water tank project. As of December 31, 2016, the District has taken draws totaling \$517,290. The total project is estimated to cost \$1,039,500.

Overall, the District's financial position decreased during 2016.

The District's overall financial position and operations for the past two years are summarized as follows:

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT'S
NET POSITION**

	<u>2016</u>	<u>2015</u>
Assets:		
Current and other assets	\$ 445,375	\$ 432,127
Restricted assets	1,364,982	1,033,011
Capital assets	<u>19,436,138</u>	<u>19,477,958</u>
Total Assets	<u>21,246,495</u>	<u>20,943,096</u>
Deferred Outflows of Resources:	<u>221,200</u>	<u>116,968</u>
Liabilities:		
Current liabilities	770,419	238,399
Current portion of long-term debt	1,086,980	560,064
Long-term liabilities	<u>11,864,855</u>	<u>12,239,173</u>
Total Liabilities	<u>13,722,254</u>	<u>13,037,636</u>
Deferred Inflows of Resources	<u>198,007</u>	<u>294,456</u>
Net Position:		
Net investment in capital assets	7,189,938	7,154,416
Restricted	1,368,776	975,242
Unrestricted	<u>(1,011,280)</u>	<u>(401,686)</u>
Total Net Position	<u>\$ 7,547,434</u>	<u>\$ 7,727,972</u>

The largest portion of the District's net position (95.2%) reflects its investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies and mapping and infrastructure), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position (18%) represents resources that are subject to restrictions on how they may be used. The remaining balance of net position is a negative unrestricted balance of \$1,011,280.

Analysis of the District's Operations – Overall the District had a decrease in net position of \$271,976.

The following table provides a summary of the District's operations for the year ended December 31, 2016 and 2015.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT
CHANGES IN NET POSITION**

	2016	2015
Revenues		
Operating revenues	\$ 2,291,704	\$ 2,287,745
Investment income	507	629
Insurance proceeds	12,841	-
Capital grants and contributions	24,750	26,250
Total revenues	2,329,802	2,314,624
Expenses		
Transmission and distribution expenses	696,605	594,413
Depreciation and amortization	665,072	658,747
Administrative and general expenses	526,099	482,698
Interest on debt and other	509,127	488,614
Water treatment	139,485	124,282
Payroll and other taxes	40,047	43,248
Customer accounts expenses	17,123	22,340
Bad debts	8,220	(484)
Total Expenses	2,601,778	2,413,858
Change in net position	(271,976)	(99,234)
Net position - January 1 - restated	7,819,410	7,827,206
Net position - December 31	\$ 7,547,434	\$ 7,727,972

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

Overall, the District's financial position is consistent with the previous year.

BUDGETARY HIGHLIGHTS

The original budget and the final budget passed by the board anticipated operating revenues of \$2,463,351 and operating expenses of \$2,001,948. Actual operating revenues were over-budgeted \$171,647, actual operating expenses were under-budgeted by \$90,703 for a negative variance in operating income of \$262,350. Actual non-operating revenues and expenses were under-budgeted \$9,626 for a total negative budget variance of \$271,976.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets for business-type activities as of December 31, 2016, amounts to \$19,436,138 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure.

	2016	2015
Business-type activities:		
Capital assets, not being depreciated:		
Land	\$ 101,969	\$ 102,469
Construction in progress	<u>519,915</u>	<u>-</u>
Total capital assets, not being depreciated	<u>621,884</u>	<u>102,469</u>
Capital assets, being depreciated:		
Transmission and distribution	14,891,847	15,316,894
Buildings	24,896	26,981
Furniture and fixtures	5,689	2,986
Machinery and equipment	<u>3,891,822</u>	<u>4,028,628</u>
Total capital assets, being depreciated	<u>18,814,254</u>	<u>19,375,489</u>
Business-type activities capital assets, net	<u>\$ 19,436,138</u>	<u>\$ 19,477,958</u>

During the year ended December 31, 2016, the District acquired assets totaling \$623,752. This include construction in progress for the Moore Hill water tank project of \$519,915.

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-term and other debt

At the end of the current year, the Crittenden-Livingston County Water District had total debt of \$12,246,200. The District entered into an agreement with Kentucky Infrastructure Authority to finance the Moore Hill water tank project. The total project is budgeted for \$1,039,500. As of December 31, 2016, the District has taken draws totaling \$517,290. Long-term debt at December 31, 2016, was as follows:

	2016	2015
Revenue Bond Series 1995A	\$ 631,000	\$ 651,000
Revenue Bond Series 2000A	1,605,000	1,642,000
Revenue Bond Series 2008C	1,150,000	1,260,000
2013 Flexible Term Financing	3,100,000	3,300,000
2013 Flexible Term Financing	1,980,000	2,030,000
Reoffering Premium	179,331	213,485
KIA Loan	568,261	643,776
KIA Loan - Radio-read Meters	255,734	268,697
KACO Lease	2,259,584	2,314,584
Interim financing - KIA	<u>517,290</u>	<u>-</u>
Total	<u>\$ 12,246,200</u>	<u>\$ 12,323,542</u>

Interest expense of \$509,127 was incurred during the year ended December 31, 2016.

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

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Crittenden-Livingston County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Ronnie Slayden, Superintendent, Crittenden-Livingston County Water District, 620 East Main Street, Salem, KY 42078.

Crittenden-Livingston County Water District
Statement of Net Position
December 31, 2016

Assets

Current Assets:

Cash equivalents	\$ 45,868
Customer accounts receivable (less allowance for uncollectible accounts of \$14,662)	171,134
Unbilled revenue	78,178
Inventory	123,488
Prepaid expenses	26,432
Other receivables	275
Restricted assets:	
Cash equivalents	923,677
Construction loan receivable	441,305
Total current assets	<u>1,810,357</u>

Noncurrent Assets:

Capital assets, net of depreciation	<u>19,436,138</u>
Total noncurrent liabilities	<u>19,436,138</u>
Total Assets	<u>21,246,495</u>

Deferred Outflows of Resources

Deferred outflows of resources related pensions	<u>221,200</u>
Total deferred outflows of resources	<u>221,200</u>

Liabilities

Current liabilities:

Trade accounts payable	58,027
Construction accounts payable	441,305
Accrued liabilities	27,610
Accrued interest on debt	231,357
Customers' deposits	12,120
Interim debt	517,290
Long-term debt due in one year	<u>569,690</u>
Total current liabilities	<u>1,857,399</u>

Noncurrent liabilities:

Long-term debt due after one year	10,979,889
Net pension liability	884,966
Total noncurrent liabilities	<u>11,864,855</u>
Total Liabilities	<u>13,722,254</u>

Deferred Inflows of Resources

Deferred inflows of resources related to debt	179,331
Deferred inflows of resources related to pensions	<u>18,676</u>
Total deferred inflows of resources	<u>198,007</u>

Net Position

Net investment in capital assets	7,189,938
Restricted for:	
Debt service	887,014
Customer deposits	12,590
Capital projects	442,740
Prepaid expenses	26,432
Unrestricted	<u>(1,011,280)</u>
Total Net Position	<u>\$ 7,547,434</u>

See accompanying notes to financial statements.

Crittenden-Livingston County Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2016

<u>Operating Revenue</u>	
Charges for services	\$ 2,222,519
Other revenue	69,185
Total Operating Revenues	<u>2,291,704</u>
<u>Operating Expenses</u>	
Transmission and distribution expenses	696,605
Depreciation	665,072
Administrative and general expenses	526,099
Water treatment	139,485
Payroll and other taxes	40,047
Customer accounts expenses	17,123
Bad debts	8,220
Total Operating Expenses	<u>2,092,651</u>
<u>Operating Income (Loss)</u>	<u>199,053</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	507
Insurance proceeds	12,841
Interest on debt	<u>(509,127)</u>
Total Nonoperating Revenue (Expenses)	<u>(495,779)</u>
<u>Net Income Before Capital Contributions</u>	(296,726)
<u>Capital Contributions</u>	<u>24,750</u>
<u>Change in Net Position</u>	(271,976)
<u>Net Position-Beginning of Year</u>	7,727,972
<u>Prior period adjustments (See Note 13)</u>	<u>91,438</u>
<u>Net Position-End of Year</u>	<u>\$ 7,547,434</u>

See accompanying notes to financial statements.

Crittenden-Livingston County Water District
Statement of Cash Flows
For the Year Ended December 31, 2016

<u>Cash Flows From Operating Activities</u>	
Cash received from customers	\$ 2,322,841
Cash payments to suppliers for goods and services	(731,949)
Cash payments to employees for services	<u>(632,160)</u>
Net Cash Provided By Operating Activities	<u>958,732</u>
<u>Cash Flows From Capital and Related Financing Activities</u>	
Principal paid on capital debt	(560,481)
Contributed capital	24,750
Acquisition of property, plant, and equipment	(182,447)
Proceeds from the sale of assets	500
Proceeds from capital debt	75,985
Proceeds from insurance claims	12,841
Interest paid on debt	<u>(491,108)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,119,960)</u>
<u>Cash Flows From Investing Activities</u>	
Income received on investments	<u>507</u>
Net Cash Used By Investing Activities	<u>507</u>
<u>Net Increase (Decrease) in Cash Equivalents</u>	(160,721)
<u>Cash Equivalents-Beginning of Year</u>	<u>1,132,936</u>
<u>Cash Equivalents-End of Year</u>	<u>\$ 972,215</u>
<u>Reconciliation of Operating Income to Net Cash Provided</u>	
<u>By Operating Activities</u>	
Operating Income (Loss)	\$ 199,053
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	665,072
Change in assets and liabilities	
Decrease (increase) in accounts receivable	31,377
Decrease (increase) in prepayments	(7,244)
Decrease (increase) in deferred outflows of resources	(104,232)
Increase (decrease) in accounts payable	26,468
Increase (decrease) in customer deposits	(240)
Increase (decrease) in accrued liabilities	14,985
Increase (decrease) in deferred pension liability	195,788
Increase (decrease) in deferred inflows of pensions	<u>(62,295)</u>
Net Cash Provided By Operating Activities	<u>\$ 958,732</u>
<u>Reconciliation of Total Cash</u>	
Current Assets - Cash	\$ 45,868
Restricted Assets - Cash	<u>923,677</u>
Total Cash	<u>\$ 969,545</u>
<u>Non-cash Investing, Capital and Related Financing Activities - None</u>	

See accompanying notes to financial statements.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Crittenden-Livingston County Water District, (the District), is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Salem, Kentucky and primarily serves rural Crittenden-Livingston County.

The accounting and reporting policies of the District relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the District are described below:

Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executives of Crittenden and Livingston counties, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, net position, revenues and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

Reclassification

Prior period financial statement amounts have been reclassified to conform to current period presentation.

Budget

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2016, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments

Cash and cash equivalents are deposited with First Southern National Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016 are recorded as prepaid items.

Post Employment Benefits

Post employment benefits are those received by employees after termination of employment. The District provides no such benefits.

Capital Assets

Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Buildings	10 to 50 years
Transmission Lines	5 to 50 years
Plant and Pumping Equipment	5 to 10 years
Meters	5 to 10 years
Office Equipment	5 to 10 years
Vehicles	5 years

Allowance for Uncollectible Accounts

The direct write-off method was used for recording un-collectible accounts. An allowance for uncollectible accounts has been provided based on an analysis of receivables outstanding more than 120 days. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the December 31, 2016 accounts receivable.

Unearned Revenue

The District recognizes certain revenue transactions as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available.

Inventory

Inventories are generally used for repair and replacement of infrastructure and connection of new services and are stated at average cost.

Restricted Assets

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed. See Note 4 for information describing restricted assets.

Estimates

The preparation of the District's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During the year ended December 31, 2016, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

Bond Discounts/Issuance Costs

The District adopted GASB 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2013. GASB 65 requires that debt issuance costs be expensed in the period they are incurred.

Pensions

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

Net Position

In the financial statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualify for reporting in this category.

Deferred Inflows of Resources: In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

A deferred inflow from pensions results from net differences between expected and actual earnings on pension plan investments. This amount is deferred and will be recognized as a reduction of pension expense over the next four years. A deferred inflow from debt refunding results from the difference in acquisition price and the net carrying amount of the old debt and is recognized as a component of interest expense over the remaining life of the debt.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

Adoption of New Accounting Pronouncements

GASB Statement No. 72

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued February 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 73

GASB Statement No. 73, *Accounting and Financial Reporting and Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015.

GASB Statement No. 76

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. This Statement supersedes Statement No. 55.

GASB Statement No. 77

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

GASB Statement No. 78

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

GASB Statement No. 79

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was issued December 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

Recent Accounting Pronouncements

As of December 31, 2016, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 74

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2016. This Statement replaces Statements No. 43 and 57, and modifies No. 25 and No. 50. The District's management has not yet determined the effect this statement will have on the financial statements.

GASB Statement No. 75

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. This Statement replaces Statements No. 45 and 57. The City's management has not yet determined the effect this statement will have on the financial statements. The unfunded liability has not yet been determined, but the District anticipates it will be material.

GASB Statement No. 80

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

GASB Statement No. 81

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

GASB Statement No. 82

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

Subsequent Events

The District has evaluated subsequent events through August 14, 2017, the date which the financial statements were available to be issued.

2. **LEGAL COMPLIANCE**

Deficit Net Position

There was not a deficit net position for the year ended December 31, 2016.

Budgets

Excess of Expenditures Over Appropriations

The District has an excess of actual operating expenditures over budget for the year ended December 31, 2016 of \$90,703. This excess was due mainly to increased depreciation, administrative and general expenses, and transmission and distribution expenses.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

3. DEPOSITS AND INVESTMENTS

1. Net Position

The captions on the statement of net position for cash, investments and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	<u>Cash on Hand</u>	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash equivalents	\$ 200	\$ 45,668	\$ -	\$ 45,868
Investments	-	-	-	-
Restricted assets:				
Cash equivalents	-	923,677	-	923,677
Investments	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 200</u>	<u>\$ 969,345</u>	<u>\$ -</u>	<u>\$ 969,545</u>

2. Deposits

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could effect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the District, includes disclosure of the following risks:

- Risks related to custodial credit risk of deposits;
- Deposit and investment policies related to those risks.

Custodial Credit Risk is the risk that in the event of a failure of a depository institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. At year-end, the carrying amount of the District's deposits in financial institutions were \$969,545 and the bank balances were \$1,053,902. Of the bank balances, \$500,000 was covered by federal depository insurance, with \$709,451 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

The District holds cash deposits in the amount of \$494,663 in the Regions Trust Cash Sweep III (RTCS). RTCS is a bank deposit account offered through Regions Institutional Services. The RTCS does not directly invest in securities. It is a deposit account that is collateralized by government securities. Collateral may include:

- Interest bearing obligations of the U.S. Government
- Senior debt obligations of any U.S. Government Agency
- And/or municipal securities with an underlying rating of A or better.

RTCS is FDIC Insured up to \$250,000. Deposit account amounts in excess of \$250,000 are secured by perfected liens on Regions Bank's securities in an amount not less than 105% of the total excess deposits. In the event of a default, the collateral reverts to the Collateral Agent to be distributed to the account owners. RTCS deposits are identified as "cash" on

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

client statements; there are no market value fluctuations.

The District does not have deposit and investment policies. However, Kentucky Revised Statutes (KRS 66.480) authorized Kentucky municipalities to invest in:

- a) Obligations of the U.S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
- b) Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
- c) Savings and loan associations insured by the U.S. government;
- d) Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U.S. government;
- e) Deposit accounts with banking institutions;
- f) State treasurer investment pool

3. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be invested with one issuer.

4. RESTRICTED NET POSITION

Net Assets Restricted

	<u>Depreciation Fund</u>	<u>Sinking Funds</u>	<u>Capital Projects</u>	<u>Tenant Deposits</u>	<u>Total</u>
Cash equivalents	\$ 215,042	\$ 671,972	\$ 1,435	\$ 12,590	\$ 901,039
Investments	-	-	-	-	-
Totals	<u>\$ 215,042</u>	<u>\$ 671,972</u>	<u>\$ 1,435</u>	<u>\$ 12,590</u>	<u>\$ 901,039</u>

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

Restricted Cash and Investments

Crittenden Livingston Water Sinking Fund - The sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds. The bond ordinances require that the amount deposited each month equals one-sixth of the next succeeding interest requirement and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2016 the balance of the Sinking Fund was \$177,309.

Depreciation Reserve - The bond ordinances require Crittenden Livingston Water District to make monthly contributions to this fund after observing the priority of deposits into the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the 1995 ordinance the District is to make \$1,842 monthly deposits until the Depreciation Fund reaches \$224,640 and shall be maintained throughout the life of the bonds. The 1995 bond ordinance amends all previous ordinances. Under the 2000 ordinance the District is to make \$2,115 monthly deposits over the life of the loan in addition to the requirement of all previous ordinances. At December 31, 2016 the balance of the Depreciation Reserve Fund was \$215,042.

Crittenden Livingston Tenant Deposit Fund - This account is set aside to account for customer deposits. At December 31, 2016 the restricted balance of the Crittenden Livingston Tenant Deposit Fund was \$12,590.

Construction Funds - Occasionally, Crittenden Livingston Water District is involved in various ongoing construction projects. A bank account has been established for each project referred to as "Phases". Monies deposited to the construction account is reserved for construction of the appropriate phase. The balance as of December 31, 2016 was \$12,864.

Regions Sinking Funds - The District maintains sinking accounts with Regions Bank for payments on the 2008 bond issuance and the 2013 flexible term financing. A monthly amount is transferred from the Rural Water Sinking Fund to meet the annual principal and interest obligations related to the previously mentioned financing. The balance held at Regions Bank for these purposes at December 31, 2016 was \$494,663.

Health Reimbursement Account - The District, in an effort to offset rising employee health insurance costs, has established a program, whereby, employees participate in a high-deductible healthcare plan with deductible amounts being paid by the District. At the beginning of each plan year the amount of each employees deductible is set aside in a separate restricted bank account. As employees incur health care costs, amounts up to the per person deductible are reimbursed to the eligible employee from this account. Any excess left in the account at the end of the plan year is used to fund the maximum amount to be set aside for the following year. As of December 31, 2016, the balance in the Health Reimbursement Account was \$11,211.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

5. CAPITAL ASSETS

A summary of proprietary fund property, plant and equipment at December 31, 2016 for business-type activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 102,469	\$ -	\$ (500)	\$ 101,969
Construction in progress	-	519,915	-	519,915
Total capital assets, not being depreciated	<u>102,469</u>	<u>519,915</u>	<u>(500)</u>	<u>621,884</u>
Capital assets, being depreciated:				
Lake and river intake	888,411	-	-	888,411
Pumping equipment	307,236	-	-	307,236
Water treatment structure	6,900	-	-	6,900
Water treatment equipment	4,402,784	-	-	4,402,784
Transportation equipment	139,835	13,875	(11,202)	142,508
Distribution reservoirs and pipe	646,049	67,052	-	713,101
Small equipment	16,724	-	-	16,724
Transmission and distribution mains	14,116,182	-	-	14,116,182
Lab equipment	6,231	-	-	6,231
Power operated equipment	65,632	-	-	65,632
Services	6,012,089	-	-	6,012,089
Meters and installation	1,274,701	19,555	-	1,294,256
Communication equipment	124,256	-	-	124,256
Hydrants	228,940	-	-	228,940
Office furniture and fixtures	45,000	3,355	-	48,355
Office building	51,928	-	-	51,928
Total capital assets, being depreciated	<u>28,332,898</u>	<u>103,837</u>	<u>(11,202)</u>	<u>28,425,533</u>
Less accumulated depreciation for:				
Lake and river intake	(157,851)	(17,770)	-	(175,621)
Pumping equipment	(99,986)	(19,156)	-	(119,142)
Water treatment structure	(2,588)	(685)	-	(3,273)
Water treatment equipment	(1,538,807)	(88,054)	-	(1,626,861)
Transportation equipment	(95,295)	(16,790)	11,202	(100,883)
Distribution reservoirs and pipe	(227,211)	(14,908)	-	(242,119)
Small equipment	(14,979)	(186)	-	(15,165)
Transmission and distribution mains	(4,364,819)	(282,868)	-	(4,647,687)
Lab equipment	(4,718)	(109)	-	(4,827)
Power operated equipment	(65,632)	-	-	(65,632)
Services	(1,741,436)	(171,766)	-	(1,913,202)
Meters and installation	(461,153)	(39,625)	-	(500,778)
Communication equipment	(28,201)	(6,316)	-	(34,517)
Hydrants	(83,460)	(4,787)	-	(88,247)
Office furniture and fixtures	(42,014)	(652)	-	(42,666)
Office building	(29,259)	(1,400)	-	(30,659)
Total accumulated depreciation	<u>(8,957,409)</u>	<u>(665,072)</u>	<u>11,202</u>	<u>(9,611,279)</u>
Total capital assets, being depreciated, net	<u>19,375,489</u>	<u>(561,235)</u>	<u>-</u>	<u>18,814,254</u>
Business-type activities capital assets, net	<u>\$ 19,477,958</u>	<u>\$ (41,320)</u>	<u>\$ (500)</u>	<u>\$ 19,436,138</u>

Depreciation charged to income was \$665,072.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

6. DEBT OBLIGATIONS

Revenue Bonds Payable

The Crittenden Livingston Water District Waterworks Revenue Bonds of 1995 (Series A) were issued in the amount of \$884,000 to finance the cost of the Phase 5 construction project (system additions). The bond maturity dates are January 1, 1998-2035. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series A) in the amount of \$2,000,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

In May 2008 Crittenden Livingston Water District issued Waterworks Revenue Bonds of 2008 (Series C) in the amount of \$1,920,000 to current refund revenue bonds 1998, 1991, 1994 & 1996 issuances. The current refunding met the requirement of an in-substance debt defeasance and the revenue bonds were removed from the District's financial statements.

The bond maturity dates are January 1, 2009-2030. This issue was purchased by Morgan, Keegan, and Company, Inc. Interest rates are shown below:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
2009	2.35%	2020	4.050%
2010	2.55%	2021	4.050%
2011	3.05%	2022	4.175%
2012	3.05%	2023	4.175%
2013	3.30%	2024	4.300%
2014	3.30%	2025	4.300%
2015	3.55%	2026	4.300%
2016	3.55%	2027	4.425%
2017	4.05%	2028	4.425%
2018	4.05%	2029	4.550%
2019	4.05%	2030	4.550%

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

In March 2013, the District entered into a flexible term finance program with Kentucky Rural Water to refinance the 2004 D Kentucky Rural Water Finance Corporation Bonds, with an interest rate of 3.120%-4.620%, and the 2000 B, with an interest rate of 4.75%, and 2000 C Rural Development Bonds with an interest rate of 4.500%. The total loan amount of \$5,780,000 is divided into two separate loans. The amount of \$3,690,000 is a 15 year loan with a variable interest rate of 2.30% to 4.80%. Principal repayment began in 2014 and the loan will be paid out in 2029. The remaining loan amount of \$2,090,000 is a 27 year loan with a variable interest rate of 2.30% to 4.80%. Principal repayment began in 2014 and the loan will be paid out in 2040.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

The \$2,090,000 current refunding decreased the total debt service until maturity in the amount of \$439,222. This resulted in an average annual cash savings of \$15,687.

The \$3,690,000 current refunding decreased the total debt service until maturity in the amount of \$546,472. This resulted in an average annual cash savings of \$34,154.

The schedule of bonds payable and the maturity schedule follows:

Description	Balance 12/31/2015	Payments	Balance 12/31/2016	Due in One Year
Waterworks Revenue Bonds				
1995 Issue (Series A)	\$ 651,000	\$ 20,000	\$ 631,000	\$ 21,000
2000 Issue (Series A)	1,642,000	37,000	1,605,000	39,000
2008 Bonds	1,260,000	110,000	1,150,000	110,000
2013 Flexible Term Financing	3,300,000	200,000	3,100,000	195,000
2013 Flexible Term Financing	<u>2,030,000</u>	<u>50,000</u>	<u>1,980,000</u>	<u>55,000</u>
Subtotal	8,883,000	417,000	8,466,000	420,000
Reoffering premium 2013 Financing	<u>213,485</u>	-	<u>179,331</u>	-
Total Bonds	<u>\$ 9,096,485</u>	<u>\$ 417,000</u>	<u>\$ 8,645,331</u>	<u>\$ 420,000</u>

Principal and interest requirements of the revenue bonds payable as of December 31, 2016 are:

Year Ending December 31,	Principal	Interest & Fees	Total
2017	\$ 420,000	\$ 338,864	\$ 758,864
2018	432,000	320,660	752,660
2019	425,000	302,333	727,333
2020	443,000	283,784	726,784
2021	461,000	264,466	725,466
2022-2026	2,450,000	996,110	3,446,110
2027-2031	1,914,000	537,034	2,451,034
2032-2035	1,075,000	275,556	1,350,556
2036-2040	<u>846,000</u>	<u>65,689</u>	<u>911,689</u>
Total	<u>\$ 8,466,000</u>	<u>\$ 3,384,496</u>	<u>\$ 11,850,496</u>

Kentucky Infrastructure Authority Notes Payable

Kentucky Infrastructure Authority (KIA) note dated November 1, 2001, at 1.8%, payable in 40 semiannual payments including principal and interest. Loan funds advanced were used on an interim basis to finance the construction of extensions, additions, and improvements to the existing waterworks system.

In August 2011, Crittenden Livingston Water District was approved for a loan to replace all existing meters with meters utilizing radio-read technology. The total cost of the project is not to exceed \$300,000 and will be financed by the Kentucky Infrastructure Authority under a loan bearing interest at 2%.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

The schedule of notes payable and the maturity schedule follows:

	<u>Balance</u> <u>12/31/2015</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12/31/2016</u>	<u>Due Within</u> <u>One Year</u>
KIA	\$ 643,776	\$ 75,515	\$ 568,261	\$ 76,882
KIA - Radio-Read Meters	<u>268,697</u>	<u>12,963</u>	<u>255,734</u>	<u>13,224</u>
Total Business-Type Activities	<u>\$ 912,473</u>	<u>\$ 88,478</u>	<u>\$ 823,995</u>	<u>\$ 90,106</u>

Annual debt service requirements for leases payable to maturity are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u> <u>& Fees</u>	<u>Total</u>
2017	\$ 90,106	\$ 15,438	\$ 105,544
2018	91,762	13,756	105,518
2019	93,449	12,042	105,491
2020	95,166	10,297	105,463
2021	96,915	8,520	105,435
2022-2026	245,733	20,699	266,432
2027-2031	83,991	8,113	92,104
2032-2035	<u>26,873</u>	<u>593</u>	<u>27,466</u>
Total	<u>\$ 823,995</u>	<u>\$ 89,458</u>	<u>\$ 913,453</u>

Leases

The Fiscal Court of Livingston County, Kentucky, in an Ordinance passed and adopted on August 24, 2010, authorized a plan to payoff a short term note of the Crittenden Livingston Water District in the amount of \$2,500,000 with funds provided to the County by the Kentucky Association of Counties Finance Corporation through a financing agreement between the county and KACO. The amount of \$2,560,000 carries a variable interest rate of 4.15% - 5.00% and matures February 1, 2039.

	<u>Balance</u> <u>12/31/2015</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12/31/2016</u>	<u>Due Within</u> <u>One Year</u>
Lease - Water System	<u>\$ 2,314,584</u>	<u>\$ 55,000</u>	<u>\$ 2,259,584</u>	<u>\$ 59,584</u>

Annual debt service requirements for leases payable to maturity are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u> <u>& Fees</u>	<u>Total</u>
2017	\$ 59,584	\$ 113,544	\$ 173,128
2018	64,583	110,863	175,446
2019	65,000	107,956	172,956
2020	69,583	105,031	174,614
2021	70,000	101,900	171,900
2022-2026	408,333	458,189	866,522
2027-2031	522,917	348,817	871,734
2032-2035	667,084	198,491	865,575
2036-2039	<u>332,500</u>	<u>28,148</u>	<u>360,648</u>
Total	<u>\$ 2,259,584</u>	<u>\$ 1,572,939</u>	<u>\$ 3,832,523</u>

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

Leased equipment under capital lease in capital assets at December 31, 2016, included the following:

Facilities and equipment	\$ 3,455,798
Less: Accumulated depreciation	<u>987,529</u>
Net	<u><u>\$ 2,468,269</u></u>

Amortization of leased facilities and equipment is included in depreciation expense.

Interest expense recognized in the year ending December 31, 2016 is \$509,127.

Interim Financing

The District entered into an agreement with Kentucky Infrastructure Authority to finance that Moore Hill Water Tank project. The total project is budgeted for \$1,039,500. As of December 31, 2016, the District has taken draws of \$517,290.

7. EMPLOYEES' RETIREMENT PLAN

County Employees' Retirement System

Plan description. The Crittenden-Livingston County Water District is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems Board of Trustees (KRS Board) established pursuant to Kentucky Revised Statutes (KRS) Section 78.630. KRS Section 61.645 grants the authority to establish and amend the benefit terms to the Kentucky Retirement Systems (Board). All District employees participating in the CERS are classified as having either a hazardous or nonhazardous position for the purpose of KRS 61.592. Kentucky Retirement Systems issues a publicly available comprehensive annual financial report containing CERS information that can be obtained at <https://kyret.ky.gov>.

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

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

Funding policy. Covered employees who began participating prior to September 1, 2008, are required by state statute to contribute 5% of their salary to CERS. Covered employees who began participating on, or after, September 1, 2008, are required by state statute to contribute 6% of their salary to CERS. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund.

Covered employees who began participation on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Covered employees

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

in the plan contribute a set percentage of their salary each month to their own account. Employee contribution rates are 5% for those classified as nonhazardous and 1% to the health insurance fund which is not credited to the employee's account and is not refundable. The employer contribution rate is set annually by the KRS Board based on an actuarial valuation. The employer contributes a set percentage of the employee's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the employee's account equal to 4% for those classified as nonhazardous. The employer pay credit represents a portion of the total employer contribution.

Employers are required by state statute (KRS 78.545) to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the KRS Board annually based upon actuarial valuations. For the year ended December 31, 2016 the employer contribution rate was 17.06% and 18.68%, respectively, of member's nonhazardous and hazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. District employer CERS contributions for the year ended December 31, 2016 were \$83,468 which was 100% funded.

Refunds of contributions. Employees who have terminated service as a contribution member of CERS may file an application for a refund of their contributions. Employee accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1981; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter. For employees participating prior to September 1, 2008, the interest paid is set by the KRS Board and will not be less than 2%, for employees participating on or after September 1, 2008 but before January 1, 2014, interest will be credited at a rate if 2.5%. For employees participating on or after January 1, 2014, interest will be credited at a minimum rate of 4%.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At December 31, 2016, the District reported a liability of \$884,966 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's share of contributions to CERS relative to the total contributions of all participating employers, actuarially determined. At June 30, 2016, the District's proportion was .01797% for nonhazardous classified employees.

Pension expense. As a result of its requirement to contribute to CERS, the District recognized pension expenses of \$110,397 for the year ended December 31, 2016. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between expected and actual experience	\$ 3,864	\$ -
Net differences between projected and actual investment earnings	83,196	-
Change of assumption	46,881	-
Changes in proportion and differences between employer contributions and share of contributions	52,114	18,676
Contributions subsequent to the measurement date	<u>35,145</u>	<u>-</u>
Totals	<u>\$ 221,200</u>	<u>\$ 18,676</u>

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

Deferred Outflows of Resources. The \$35,145 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Contributions made subsequent to the measurement date have a zero years amortization period.

At December 31, 2016, \$221,200 was recognized as deferred outflows of resources resulting from a) differences between expected and actual experience (actuarial gains and losses), b) difference between expected and actual earnings on pension plan investments, c) changes in assumptions, d) change in proportionate and differences between employer contributions and share of contributions, and e) contributions subsequent to the measurement date (explained above).

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Net difference between expected and actual experience:

<u>3.51 Years Amortization Period</u>	<u>Amount Deferred</u>	<u>Amount Amortized</u>	<u>Net Deferral Balance</u>
Recognized in previous years	\$ 8,980	\$ 2,558	\$ 6,422
Recognized in current year	-	2,558	(2,558)
Subtotal	<u>\$ 8,980</u>	<u>\$ 5,116</u>	<u>\$ 3,864</u>

Net difference between expected and actual earnings:

<u>5 Years Amortization Period</u>	<u>Amount Deferred</u>	<u>Amount Amortized</u>	<u>Net Deferral Balance</u>
Recognized in previous years	\$ (12,482)	\$ (19,266)	\$ 6,784
Recognized in current year	92,395	15,983	76,412
Subtotal	<u>\$ 79,913</u>	<u>\$ (3,283)</u>	<u>\$ 83,196</u>

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

Change in assumptions:

<u>3.51 Years Amortization Period</u>	<u>Amount Deferred</u>	<u>Amount Amortized</u>	<u>Net Deferral Balance</u>
Recognized in previous years	\$ 97,189	\$ 22,619	\$ 74,570
Recognized in current year	-	27,689	(27,689)
Subtotal	<u>\$ 97,189</u>	<u>\$ 50,308</u>	<u>\$ 46,881</u>

Change in proportionate and differences between employer contributions and share of contributions:

<u>3.51 Years Amortization Period</u>	<u>Amount Deferred</u>	<u>Amount Amortized</u>	<u>Net Deferral Balance</u>
Recognized in previous years	\$ -	\$ -	\$ -
Recognized in current year	<u>72,877</u>	<u>20,763</u>	<u>52,114</u>
Subtotal	<u>\$ 72,877</u>	<u>\$ 20,763</u>	<u>\$ 52,114</u>

Future amortization of deferred outflows related to the difference between expected and actual experience \$3,864, changes in proportion and difference between employer contributions and share of contributions \$52,114, and change in assumptions \$46,881, will be recognized as an offset to pension expense as follows:

<u>Years Ending</u>	
December 31, 2017	\$ 40,980
December 31, 2018	40,980
December 31, 2019	<u>20,899</u>
Total	<u>\$ 102,859</u>

The net difference between projected and actual earnings \$83,196 will be recognized as an offset to pension expense as follows:

<u>Years Ending</u>	
December 31, 2017	\$ 15,983
December 31, 2018	28,465
December 31, 2019	19,374
December 31, 2020	<u>19,374</u>
Total	<u>\$ 83,196</u>

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

Deferred Inflows of Resources: For the year ending December 31, 2016, the District recognized \$18,676 as deferred inflows of resources resulting from the changes in proportion and differences between employer contributions and proportionate share of contributions. This amount will be recognized as an offset to pension expense as follows:

<u>Years Ending</u>		
December 31, 2017	\$	7,441
December 31, 2018		7,441
December 31, 2019		<u>3,794</u>
Total	\$	<u><u>18,676</u></u>

Actuarial assumptions. The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense including inflation

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated August 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 distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer time frame. 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

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	5.25%
Cash	2%	(0.25%)
	<u>100%</u>	

Discount Rate. The discount rate used to measure the total pension liability for the plan was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease	Current Discount Rate 7.50%	1% Increase
The District's proportionate share of the net pension liability	<u>6.50%</u>	<u>Rate 7.50%</u>	<u>8.50%</u>
	\$ 1,102,572	\$ 884,966	\$ 698,078

Payables to the pension plan. At December 31, 2016, the financial statements include \$9,278 in contractually required employee and employer contributions primarily for the month ended December 31, 2016. The obligation was paid within prescribed time limits.

Postretirement healthcare benefits. In addition to the pension benefits described above, the KRS provides postretirement healthcare benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund). The Insurance Fund was established to provide hospital and medical insurance for those receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the year ended June 30, 2016 (the date of the latest available information), insurance premiums withheld from benefit payments

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

for those receiving benefits from CERS were \$22,600,000 for nonhazardous, respectively. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous employees killed in the line of duty. As of June 30, 2016, the Insurance Fund had 113,280 retirees and beneficiaries for whom benefits were available.

The amount of contributions paid by the Insurance Fund is based on years of service. For employees participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are shown below:

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

As a result of House Bill 290 (2004) Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Once employees reach a minimum vesting period of ten years, nonhazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November, 1992, the Board adopted a fixed percentage rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the KRS Board adopted a policy to increase the insurance rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the KRS Board voted to cease self-funding of healthcare benefits for most Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

8. COMMITMENTS

Sales Contracts

In 2000 the District entered into a 40 year sales agreement with the City of Grand Rivers, Kentucky. The agreement is for the City to purchase five million gallons per month. The City purchased water totaling \$240,261 in the year ending December 31, 2016.

In 2000 the District entered into a 40 year sales agreement with the City of Smithland, Kentucky. The agreement is for the City to purchase one million gallons per month. The City purchased water totaling \$38,050 in the year ending December 31, 2016.

In 2000 the District entered into a 40 year sales agreement with the City of Ledbetter, Kentucky. The agreement is for the City to purchase three million gallons per month. The City purchased water totaling \$80,967 in the year ending December 31, 2016.

In 2016 the District entered into a 41 year sales agreement with the Lyon County Water District. The agreement does not have per month minimum. The District purchased \$28,664 of water in the year ending December 31, 2016.

In 1971 the District entered into a sales agreement with the City of Salem, Kentucky. The agreement does not have per month minimum. The City purchased \$70,802 of water in the year ending December 31, 2016.

9. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2015 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

10. ECONOMIC DEPENDENCIES

The majority of the District's revenue consists of charges for water-related services to customers in Crittenden-Livingston County, Kentucky. For the year ended December 31, 2016, the revenues from these sources totaled \$2,222,519.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2016

11. COMPENSATED ABSENCES

The District grants employees vacation time based on years of service. Full-time employees, with one (1) year continuous service, are entitled to vacation pay according to the following schedule:

- Anniversary of 1 year of service - 5 days
- Anniversary of 2 years of service - 10 days
- Anniversary of 5 years of service - 15 days
- Anniversary of 10 years of service - 20 days

Vacation must be taken in the calendar year of eligibility. The policy applies to all employees. All employees must make an effort to take their vacation time.

The District's policy on personal days is to allow employees three days per year. This can be used for anything from sickness to family emergencies.

Can employee may reserve overtime as comp time. One hour of overtime equals 1 and 1/2 hours of comp time. A maximum of 60 hours may be accumulated.

12. LITIGATION

On July 13, 2015, litigation was brought against Crittenden-Livingston County Water District. The litigation involves a water purchase contract dispute with another water district that is a customer. Currently, the other water district is contracted to purchase 3,000,000 gallons a month for 40 years from Crittenden-Livingston County Water District. Although the contract between the water districts began on January 24, 2000, the plaintiff contends the contract is void. If the water purchase contract is ultimately ruled void and if no water is purchased by this customer then Crittenden-Livingston County Water District could have a reduction of \$92,880 of current minimum annual gross revenue or \$53, 640 of current minimum net operating income. The likelihood of any loss of revenue, or net operating income, concerning this water contract dispute is unknown at this time. As of December 31, 2016, this is still unresolved.

13. PRIOR PERIOD ADJUSTMENTS

Correction of an error

The Crittenden Livingston County Water District previously did not account for inventory. After a physical inventory count and analysis of maintenance and repairs and supplies it was determined that inventory has been understated in previous years. A prior period adjustment of \$123,488 has been made to provide a more accurate reflection of inventory values.

The Crittenden Livingston County Water District adopted the direct write-off method. After review of outstanding customer balances it was determined that \$23,830 should have been written off as bad debt and turned over to collections in previous years. The District has also adopted the policy of to showing an allowance for doubtful accounts. Allowance for doubtful accounts is determined by the Board based off of accounts older than 120 days and previous collection history. It was determined that \$8,220 should have been recognized as an allowance for doubtful accounts in the previous year.

Net position July 1, 2014, as previously stated	\$ 7,727,972
Correction of an error - Inventory	123,488
Correction of an error - Receivables	(32,050)
Net position on July 1, 2014, restated	<u>\$ 7,819,410</u>

REQUIRED SUPPLEMENTARY INFORMATION

Crittenden-Livingston County Water District
Statement of Revenues, Expenses, and
Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		with Final Budget Positive (Negative)
<u>Revenues:</u>				
Water revenues	\$ 2,403,351	\$ 2,403,351	\$ 2,222,519	\$ (180,832)
Other revenue	60,000	60,000	69,185	9,185
Total Operating Revenues	<u>2,463,351</u>	<u>2,463,351</u>	<u>2,291,704</u>	<u>(171,647)</u>
<u>Operating Expenses</u>				
Transmission and distribution expenses	668,000	668,000	696,605	(28,605)
Depreciation	643,148	643,148	665,072	(21,924)
Administrative and general expenses	485,300	485,300	526,099	(40,799)
Water treatment	140,000	140,000	139,485	515
Payroll and other taxes	36,000	36,000	40,047	(4,047)
Customer accounts expenses	23,000	23,000	17,123	5,877
Bad debt expense	6,500	6,500	8,220	(1,720)
Total Operating Expenses	<u>2,001,948</u>	<u>2,001,948</u>	<u>2,092,651</u>	<u>(90,703)</u>
<u>Operating Income (Loss)</u>	<u>461,403</u>	<u>461,403</u>	<u>199,053</u>	<u>(262,350)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	700	700	507	(193)
Insurance proceeds	-	-	12,841	12,841
Interest on debt	(488,353)	(488,353)	(509,127)	(20,774)
Total Nonoperating Revenue (Expenses)	<u>(487,653)</u>	<u>(487,653)</u>	<u>(495,779)</u>	<u>(8,126)</u>
<u>Net Income before Capital Contributions</u>	(26,250)	(26,250)	(296,726)	(270,476)
<u>Capital Contributions</u>	<u>26,250</u>	<u>26,250</u>	<u>24,750</u>	<u>(1,500)</u>
<u>Change in Net Position</u>	<u>\$ -</u>	<u>\$ -</u>	(271,976)	<u>\$ (271,976)</u>
<u>Net Position-Beginning of Year</u>			7,727,972	
<u>Prior Period Adjustments (See Note 13)</u>			<u>91,438</u>	
<u>Net Position-End of Year</u>			<u>\$ 7,547,434</u>	

Crittenden-Livingston County Water District
Schedule of the Proportionate Share
of the Net Pension Liability
For the Year Ended December 31, 2016

County Employee Retirement System
Last Three Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's proportion of the net pension liability (asset)	0.01797%	.016029%	0.008651%
Employer's proportionate share of the net pension liability (asset)	\$ 884,966	\$ 689,178	\$ 280,671
Employer's covered-employee payroll	\$ 469,149	\$ 375,904	\$ 204,010
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	188.63%	183.34%	137.58%
Plan fiduciary net position as a percentage of the total pension liability (2)	55.50%	59.97%	66.80%

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

(1) The amounts presented for the fiscal year were determined as of the fiscal year ending June 30, 2016.

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

Crittenden-Livingston County Water District
Schedule of Pension Contributions
For the Year Ended December 31, 2016

County Employee Retirement System
Last Three Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 61,650	\$ 47,585	74,682
Contributions in relation to the contractually required contribution	<u>61,650</u>	<u>47,585</u>	<u>74,682</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 469,149	\$ 375,904	\$ 393,724
Contribution as a percentage of covered-employee payroll	17.06%/ 18.68%	17.67%/ 17.06%	18.89%/ 17.67%

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

Notes to the Required Supplementary Information

Notes Related to Schedule of the Crittenden-Livingston County Water District's Proportionate Share of the Net Pension Liability - County Employee Retirement System of the KRS

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

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

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

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

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rate of Retirement, Withdrawal and Disability were updated to more accurately reflect experience

Notes to the Schedule of the Crittenden-Livingston County Water District's Contributions - County Employee Retirement Systems of KRS

Methods and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation	5-year smoothed market
Inflation	3.25%
Salary increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

OTHER SUPPLEMENTARY INFORMATION

Crittenden-Livingston County Water District
Detail Schedule of Operating Expenses
For the Year Ended December 31, 2016

<u>Depreciation expense</u>	\$ <u>665,072</u>
<u>General operating expenses</u>	
Salaries & wages	136,423
Retirement	110,397
Employee insurance	75,621
Legal & professional	71,941
Insurance	34,661
Repairs & maintenance	22,709
Office supplies	20,822
Fuel	16,314
Utilities	14,393
Miscellaneous	8,721
Seminar	5,049
PSC assessment	4,442
Bank charges	2,289
Dues & subscriptions	1,700
Penalties	<u>617</u>
Total general operating expenses	<u>526,099</u>
<u>Transmission and distribution expenses</u>	
Salaries & wages	389,306
Repairs & maintenance	170,337
Utilities	127,639
Supplies & materials	<u>9,323</u>
Total water expenses	<u>696,605</u>
<u>Payroll and other taxes</u>	<u>40,047</u>
<u>Customer accounts expenses</u>	
Postage	<u>17,123</u>
Total customer accounts expenses	<u>17,123</u>
<u>Water treatment</u>	
Chemicals	127,897
Testing	<u>11,588</u>
Total water treatment	<u>139,485</u>
<u>Bad debt expense</u>	<u>8,220</u>
<u>Total operating expenses</u>	\$ <u><u>2,092,651</u></u>