

**GALLATIN COUNTY WATER DISTRICT**  
**BASIC FINANCIAL STATEMENTS,**  
**SUPPLEMENTARY INFORMATION,**  
**AND INDEPENDENT AUDITOR'S REPORTS**

**At December 31, 2013 and 2012**

**GALLATIN COUNTY WATER DISTRICT  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY INFORMATION  
AND INDEPENDENT AUDITOR'S REPORTS**

**Years Ended December 31, 2013 and 2012**

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**INDEPENDENT AUDITOR'S REPORT**

To the Commissioners of the  
Gallatin County Water District  
Sparta, Kentucky 41086

**Report on the Financial Statements**

We have audited the accompanying financial statements of Gallatin County Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Gallatin County Water District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gallatin County Water District, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards general accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014, on our consideration of the Gallatin County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gallatin County Water District's internal control over financial reporting and compliance.

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants  
Carrollton, Kentucky

February 28, 2014

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013**

Our discussion and analysis of the Gallatin County Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2013. Please read it in conjunction with the District's financial statements, which begin on page 6.

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of the District report information about the District's use of accounting methods which are similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The balance sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for evaluating the capital of the District and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its water rates and other fees.

The final required financial statement is its statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reported period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). The implementation of GASB 65 required the District to retroactively recognize costs of bond issuance as outflows of resources and restate its fiscal 2012 financial statements by eliminating any carrying amounts of bond issue costs and related amortization. Therefore the 2012 totals reflected in this report have been restated.

**FINANCIAL HIGHLIGHTS**

The following are key financial highlights:

- Total assets at year-end were \$7,419,438 and exceeded liabilities in the amount of \$3,660,876 (i.e. net position). Of the total net position, \$803,439 was unrestricted and was available to support short-term operations. Total net position decreased from year end 2012 to 2013 in the amount of \$124,703.
- Water charges decreased \$10,965 during the year attributed mainly to less water consumption by the Kentucky Speedway.
- Operating expenses increased by \$5,372.
- The District was in compliance with all debt covenants required by borrowing agreements.

**Balance Sheet, Statement of Net Position**

Utility Plant decreased by \$190,507, net of depreciation, in 2013. (See diagram below.)

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013**

**Condensed Assets**

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Utility Plant	\$ 6,143,404	\$ 6,333,911	\$ (190,507)
Current Assets	828,155	805,162	\$ 22,993
Other Non-current Assets	447,879	520,913	\$ (73,034)
Total Net Assets	<u>\$ 7,419,438</u>	<u>\$ 7,659,986</u>	<u>\$ (240,548)</u>

At the end of December 31, 2013, the District had \$6,143,404 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	<u>2013</u>	<u>2012</u>
Land & Rights	\$ 226,229	\$ 226,229
Structures & Improvements	248,534	257,506
Distribution System	5,384,684	5,536,805
Wells	237,097	251,006
Machinery & Equipment	46,860	62,365
Construction in Process	<u>-</u>	<u>-</u>
Totals	<u>\$ 6,143,404</u>	<u>\$ 6,333,911</u>

This year's major additions included:

- Distribution system additions included the completion of the 2012 project at the Kentucky Speedway. Approximately 4,900 feet of 8" water main was installed to connect the existing mains to Ky. Hwy. 1039 and to allow for more accurate monitoring and recording of water usage.

Long-term debt decreased by normal principal payments made during the year. The decrease in current and accrued liabilities is attributed to the decrease in obligations due on capital projects at December 31, 2013.

**Condensed Liabilities**

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Long Term Debt	\$ 3,550,283	\$ 3,639,060	\$ (88,777)
Current & Accrued Liabilities	208,279	235,347	\$ (27,068)
Total Liabilities	<u>\$ 3,758,562</u>	<u>\$ 3,874,407</u>	<u>\$ (115,845)</u>

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013**

**Net Position**

At December 31, 2013, net position decreased \$124,703, as a result of contributions in aid of construction of \$10,220 offset by the District's loss from operations (before contributions) of \$134,923.

**Condensed Net Position**

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Net Investments in Capital Assets	\$ 2,525,339	\$ 2,631,316	\$ (105,977)
Restricted for Debt Service	332,098	296,293	35,805
Unrestricted	803,439	857,970	(54,531)
Total	<u>\$ 3,660,876</u>	<u>\$ 3,785,579</u>	<u>\$ (124,703)</u>

**Income Statement, Statement of Revenues, Expenses and Changes in Net Position**

Operating Revenues for 2013 decreased by \$11,742 due mainly to less usage at the Kentucky Speedway. Operating expenses increased by \$5,372 in 2013. Depreciation also decreased.

**Condensed Statement of Revenues and Expenses**

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Operating Revenues	\$ 943,978	\$ 955,720	\$ (11,742)
Operating Expenses	936,825	931,453	5,372
Net-Operating Revenue	\$ 7,153	\$ 24,267	\$ (17,114)
Non-Operating Revenue (Expenses)	(142,076)	(136,240)	(5,836)
Income (Loss) Before Contributions	<u>\$ (134,923)</u>	<u>\$ (111,973)</u>	<u>\$ (22,950)</u>

**Statement of Cash Flows**

Cash from Operating Activities was down \$39,938 in 2013. Cash from capital and related financing activities in 2013 reflect the monies received and used to finance capital improvements and equipment. Cash used in investing activities reflects the District's investment in additional certificates of deposit. Cash is consistent with expectations for the year.

**Condensed Statement of Cash Flows**

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Cash from Operating Activities	\$ 317,402	\$ 357,340	\$ (39,938)
Cash from Capital & Related Financing Activities	(418,407)	(379,140)	(39,267)
Cash from Investing Activities	1,591	2,486	\$ (895)
Change in Cash	\$ (99,414)	\$ (19,314)	\$ (80,100)
Cash Balance, Beginning of Year	562,475	581,789	(19,314)
Cash Balance, End of Year	<u>\$ 463,061</u>	<u>\$ 562,475</u>	<u>\$ (99,414)</u>

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013**

**Debt**

At year-end, the District had \$3,618,897 in notes payable, bonds payable and accrued compensated absences compared to \$3,702,886 last year as shown below. The decrease is attributable to the payment of scheduled principal and interest payments.

	<u>2013</u>	<u>2012</u>
Notes Payable	\$ 469,165	\$ 492,895
Bonds Payable	3,148,900	3,209,700
Accrued Compensated Absences	832	291
Totals	<u>\$ 3,618,897</u>	<u>\$ 3,702,886</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District anticipates the construction of a new 30 x 40 foot storage facility to house equipment.

The District anticipates operating income in 2014 to increase in accordance with the rate increase that became effective on November 1, 2013.

The District anticipates a decrease in operating expenses in 2014 mainly due to reduced health insurance costs associated with the implementation of the HRA, *Health Reimbursement Account*, that went into effect in May of 2013. Also, a reduction in bank service charges is expected due to changes made to the customer bill pay options.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office at 4500 Highway 455, Sparta, KY 41086.

Tammy Hendren  
Office Manager



GALLATIN COUNTY WATER DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2013 and 2012

	2013	Restated 2012
<b>ASSETS</b>		
Current Assets:		
Cash, Including Time Deposits	\$ 637,843	\$ 659,717
Accounts Receivable Trade (Net)	123,379	103,142
Accounts Receivable - Insurance Recovery	21,125	-
Interest Receivable	745	998
Inventory	33,555	30,699
Prepaid Expense	11,508	10,606
Total Current Assets	<u>\$ 828,155</u>	<u>\$ 805,162</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 447,620	\$ 520,657
Interest Receivable	259	256
Capital Assets (Net)	6,143,404	6,333,911
Total Noncurrent Assets	<u>\$ 6,591,283</u>	<u>\$ 6,854,824</u>
Total Assets	<u>\$ 7,419,438</u>	<u>\$ 7,659,986</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 32,399	\$ 10,122
Accounts Payable Construction	-	54,082
Accrued Wages	6,490	5,175
Accrued Compensated Absences	832	291
Accrued Payroll Taxes/Employee Withholding	6,963	6,410
Utility Tax Payable	2,335	2,040
Sales Tax Payable	411	356
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	70,909	72,341
Revenue Bonds Payable	63,900	60,800
Note Payable - Kentucky Infrastructure Authority	24,040	23,730
Total Current Liabilities	<u>\$ 208,279</u>	<u>\$ 235,347</u>
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 3,085,000	\$ 3,148,900
Note Payable - Kentucky Infrastructure Authority	445,125	469,165
Escrow - Customer Construction Deposits	350	1,152
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	19,808	19,843
Total Noncurrent Liabilities	<u>\$ 3,550,283</u>	<u>\$ 3,639,060</u>
Total Liabilities	<u>\$ 3,758,562</u>	<u>\$ 3,874,407</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 2,525,339	\$ 2,631,316
Restricted for Debt Service	332,098	296,293
Unrestricted	803,439	857,970
Total Net Position	<u>\$ 3,660,876</u>	<u>\$ 3,785,579</u>

GALLATIN COUNTY WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
For the Years Ended December 31, 2013 and 2012

	2013	Restated 2012
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 890,934	\$ 901,899
Total Charges for Services	<u>\$ 890,934</u>	<u>\$ 901,899</u>
Other Charges and Miscellaneous:		
Billing Service Charges	\$ 35,503	\$ 35,253
Connection Fees	16,730	16,709
Miscellaneous	811	1,859
Total Other Charges and Miscellaneous	<u>\$ 53,044</u>	<u>\$ 53,821</u>
Total Operating Revenues	<u>\$ 943,978</u>	<u>\$ 955,720</u>
Operating Expenses:		
Bank Charges	\$ 8,149	\$ 6,188
Commissioner Fees	6,750	7,650
Contractual Service - Sampling	6,734	5,642
Dues	1,968	1,112
Health Insurance	81,292	80,533
Insurance	19,684	20,141
Labor	221,643	210,644
Maintenance of Mains	52,899	41,472
Office Supplies and Expense	23,771	32,254
Other Interest Expense	31	107
Payroll Taxes	15,536	15,057
Professional Services	11,442	11,685
Purchased Water	7,660	8,292
Regulatory Fees	1,723	1,640
Retirement Expense	42,241	40,626
Travel/Transportation Expense	23,835	23,299
Uniforms	2,398	2,270
Utilities - Office	13,048	12,286
Utilities - Pumping	65,653	74,994
Depreciation Expense	330,368	335,561
Total Operating Expenses	<u>\$ 936,825</u>	<u>\$ 931,453</u>
Operating Income (Loss)	<u>\$ 7,153</u>	<u>\$ 24,267</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 5,844	\$ 8,587
Interest Expense	(147,920)	(151,078)
Gain (Loss) on Equipment Sold/Abandoned	-	6,251
Total Nonoperating Revenues (Expense)	<u>\$ (142,076)</u>	<u>\$ (136,240)</u>
Income (Loss) Before Contributions	\$ (134,923)	\$ (111,973)
Capital Contributions	<u>10,220</u>	<u>7,996</u>
Change in Net Position	\$ (124,703)	\$ (103,977)
Net Position--Beginning of Year	<u>3,785,579</u>	<u>3,889,556</u>
Net Position--End of Year	<u><u>\$ 3,660,876</u></u>	<u><u>\$ 3,785,579</u></u>

**GALLATIN COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2013 and 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 902,931	\$ 957,427
Payments to Suppliers	(42,040)	(49,172)
Payments to Employees	(226,537)	(217,674)
Other Receipts (Payments)	(316,952)	(333,241)
Net Cash Provided (Used) by Operating Activities	<u>\$ 317,402</u>	<u>\$ 357,340</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	\$ 10,220	\$ 8,798
Purchases of Capital Assets	(194,745)	(160,522)
Proceeds from Sales of Assets	-	6,251
Principal Paid on Capital Debt	(84,530)	(81,225)
Interest Paid on Capital Debt (including capitalized interest)	(149,352)	(152,442)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (418,407)</u>	<u>\$ (379,140)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	\$ (4,503)	\$ (7,967)
Interest on Investments	6,094	10,453
Net Cash Provided (Used) by Investing Activities	<u>\$ 1,591</u>	<u>\$ 2,486</u>
 Net (Decrease) in Cash and Cash Equivalents	 \$ (99,414)	 \$ (19,314)
 Balances-Beginning of the Year	 <u>562,475</u>	 <u>581,789</u>
 Balances-End of the Year	 <u><u>\$ 463,061</u></u>	 <u><u>\$ 562,475</u></u>

	Balances Per December 31, 2013 Statement of Net Position	Balances Per December 31, 2013 Statement of Cash Flows
Cash	\$ 89,864	\$ 89,864
Time Deposits	547,979	-
Restricted Cash	373,197	373,197
Restricted Time Deposits	74,423	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,085,463</u>	<u>\$ 463,061</u>

	Balances Per December 31, 2012 Statement of Net Position	Balances Per December 31, 2012 Statement of Cash Flows
Cash	\$ 115,503	\$ 115,503
Time Deposits	544,214	-
Restricted Cash	446,972	446,972
Restricted Time Deposits	73,685	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,180,374</u>	<u>\$ 562,475</u>

(Continued)

**GALLATIN COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 7,153	\$ 24,267
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	330,368	335,561
Change in Assets and Liabilities:		
Receivables, Net	(41,362)	867
Inventories	(2,856)	2,792
Prepaid Expenses	(902)	(1,040)
Accounts and Other Payables	22,277	(1,160)
Accrued Expenses	2,759	(5,220)
Customer Meter Deposits Payable	<u>(35)</u>	<u>1,273</u>
Net Cash Provided by Operating Activities	<u>\$ 317,402</u>	<u>\$ 357,340</u>

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

At December 31, 2013 and 2012, Gallatin County Water District had incurred \$-0- and \$54,082 in capital expenditures included in accounts payable - construction, respectively.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2013 and 2012**

**NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**

The Gallatin County Water District is a rural water company serving approximately 1,890 customers in Gallatin, Grant and Boone Counties of Kentucky, and regulated by the Public Service Commission of the Commonwealth of Kentucky. The Water District was formed under the laws of Gallatin County in September 1960 through the Fiscal Court (reaffirmed in 1985) and began operations in July 1989.

In evaluating how to define Gallatin County Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

**Basis of presentation and accounting:** As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets, restricted; and unrestricted components.

**Revenues and expenses:** Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by Bond Agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013 and 2012**

**NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and equipment:** Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Structures & Improvements	40 years
- Distribution System	30-50 years
- Wells	35 years
- Machinery & Equipment	5-20 years

**Inventory:** Inventories are stated at latest cost.

**Compensated Absences:** See Note 9 for the District's policy on vacation and personal days.

**Deferred Outflows and Deferred Inflows**

The District adopted GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* "GASB 65"). GASB 65 established accounting and reporting standards that reclassified certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognized certain items previously reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term "deferred" in the financial statement presentation. The implementation of GASB 65 required the District to retroactively recognize costs of issuance as outflows of resources and restate its fiscal 2012 financial statements by eliminating any carrying amounts of bond issuance costs and related amortization thereof.

The effect of the restatement is discussed in Note 19.

**Income Taxes:** The Gallatin County Water District is not subject to income taxes.

**Contributed capital:** Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. No grant monies were received in the years ended December 31, 2013 and 2012. Tap-on fees of \$10,220 and \$7,996 were received by the District for the years ended December 31, 2013 and 2012.

**Net position:** Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

**Estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Statement of Cash Flows:** For the purpose of the Statement of Cash Flows, Gallatin County Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013 and 2012**

**NOTE 2 – DEBT RESTRICTIONS AND COVENANTS**

The Bond and Interest Sinking Account was established with the original RECD bond issue, and is to be continued to be maintained as long as any of the 1988, 1993, 1996, 2000, 2002 or 2006 issues are outstanding. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, a monthly transfer must be made as follows:

$$\begin{array}{rcl} & \text{one sixth (1/6) of the next semiannual interest payment} & \\ + & \text{one twelfth (1/12) of next annual principal payment} & \\ = & \text{monthly transfer} & \end{array}$$

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2013 and 2012.

A funded depreciation reserve account was required in accordance with the original RECD Bond issue and was continued with the District's subsequent issues. The cumulative requirement of these issues was a monthly transfer of \$547 into this account until the balance accumulated to \$71,600. The 2000 Bond Resolution requires \$240 to be deposited monthly to the depreciation reserve account as long as any bonds payable remain outstanding, until an additional \$28,800 is accumulated. The 2002 Bond Resolution requires an additional transfer of \$65 per month until \$7,800 (additional) is accumulated. The 2006 Bond Resolution requires an additional transfer of \$865 per month until an additional \$103,800 is accumulated in the reserve. The deposits must be resumed any time the account(s) fall below the balance indicated.

A funded Maintenance and Replacement Reserve is required by the District's Assistance Agreement (B99-02) with the Kentucky Infrastructure Authority. Under the agreement, the District must deposit into this account an amount equal to 10% of the amount of the loan payment until the amount accumulated on deposit is equal to 5% of the original principal amount of the loan. The account was fully funded in June, 2013.

Transfers were made as required in 2013 and 2012.

A funded short lived asset account is required under the letter of conditions establishing funding for the 2006 system improvement project. Under this agreement, the District must deposit \$5,535 monthly into the account. This account may be used as needed to replace or add short lived assets in the District's water system. Transfers began in January, 2008. During 2013 and 2012, \$174,391 and \$131,546, respectively was used to finance pump maintenance in providing service to Kentucky Speedway and the construction of other line improvements.

**NOTE 3 – CASH AND INVESTMENTS**

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Gallatin County Water District's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2013 and 2012. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC Insurance or collateralized with a depository surety bond or securities held by the District (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

**GALLATIN COUNTY WATER DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and 2012**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

**December 31, 2013**

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 84,127	\$ 84,127	\$ -	\$ -	\$ 83,937
Time and Savings Deposits	1,001,553	891,402	110,151	-	1,001,466
Total Deposits	<u>\$ 1,085,680</u>	<u>\$ 975,529</u>	<u>\$ 110,151</u>	<u>\$ -</u>	<u>\$ 1,085,403</u>

**December 31, 2012**

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 116,984	\$ 116,984	\$ -	\$ -	\$ 115,434
Time and Savings Deposits	1,064,871	990,104	74,767	-	1,064,870
Total Deposits	<u>\$ 1,181,855</u>	<u>\$ 1,107,088</u>	<u>\$ 74,767</u>	<u>\$ -</u>	<u>\$ 1,180,304</u>

**Reconciliation to Statement of Net Position:**

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Unrestricted Cash	\$ 637,843	\$ 659,717
Restricted Cash, Including Time Deposits	447,620	520,657
Less Cash on Hand	(60)	(70)
	<u>\$ 1,085,403</u>	<u>\$ 1,180,304</u>

**NOTE 4 – RESTRICTED ASSETS**

Restricted cash and investments consist of the following:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Bond and Interest Sinking Account	\$ 150,529	\$ 135,104
Depreciation Account	207,001	191,525
Customer Deposits	25,952	25,620
Speedway Maintenance and Replacement Reserve	45,218	41,749
Short Lived Assets Account	18,920	126,659
Total	<u>\$ 447,620</u>	<u>\$ 520,657</u>

Restricted receivables consist of the following:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Interest Receivable	\$ 259	\$ 256
Total	<u>\$ 259</u>	<u>\$ 256</u>

**NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE**

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$10,243 and \$12,771 at December 31, 2013 and 2012, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.



**GALLATIN COUNTY WATER DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013 and 2012**

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2013 and 2012, was as follows:

	Balance at January 1, 2013	Additions	Disposals	Balance at December 31, 2013
Land & Land Rights	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	344,910	-	-	344,910
Distribution System	8,685,423	139,861	-	8,825,284
Wells	372,187	-	-	372,187
Machinery & Equipment	263,105	-	(6,148)	256,957
Totals at Historical Cost	<u>\$ 9,923,780</u>	<u>\$ 139,861</u>	<u>\$ (6,148)</u>	<u>\$ 10,057,493</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	87,404	8,972	-	96,376
Distribution System	3,148,618	291,982	-	3,440,600
Wells	121,181	13,909	-	135,090
Machinery & Equipment	200,740	15,505	(6,148)	210,097
Total Accumulated Depreciation	<u>\$ 3,589,869</u>	<u>\$ 330,368</u>	<u>\$ (6,148)</u>	<u>\$ 3,914,089</u>
Capital Assets, Net	<u>\$ 6,333,911</u>	<u>\$ (190,507)</u>	<u>\$ -</u>	<u>\$ 6,143,404</u>

  

	Balance at January 1, 2012	Additions	Disposals	Balance at December 31, 2012
Land & Land Rights	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	344,910	-	-	344,910
Distribution System	8,462,759	222,664	-	8,685,423
Wells	372,187	-	-	372,187
Machinery & Equipment	286,320	5,127	(28,342)	263,105
Construction in Process	16,967	197,700	(214,667)	-
Totals at Historical Cost	<u>\$ 9,741,298</u>	<u>\$ 425,491</u>	<u>\$ (243,009)</u>	<u>\$ 9,923,780</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	78,431	8,973	-	87,404
Distribution System	2,857,141	291,477	-	3,148,618
Wells	107,273	13,908	-	121,181
Machinery & Equipment	207,879	21,203	(28,342)	200,740
Total Accumulated Depreciation	<u>\$ 3,282,650</u>	<u>\$ 335,561</u>	<u>\$ (28,342)</u>	<u>\$ 3,589,869</u>
Capital Assets, Net	<u>\$ 6,458,648</u>	<u>\$ 89,930</u>	<u>\$ (214,667)</u>	<u>\$ 6,333,911</u>

Land and land rights are capital assets not being depreciated. Included under the District's plant assets were \$413,843 and \$300,732 of fully depreciated assets, at December 31, 2013 and 2012, respectively.

Depreciation expense aggregated \$330,368 and \$335,561 in 2013 and 2012, respectively.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013 and 2012**

**NOTE 7 – CUSTOMER DEPOSITS/ESCROW**

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full) or one year pending a satisfactory payment record. Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current annual rate. Accrued interest is paid annually and when the deposit is refunded.

Customer construction deposits represent amounts collected for hookups on future line extensions.

**NOTE 8 – LONG-TERM DEBT**

As of December 31, 2013 and 2012, the long-term debt payable consisted of the following:

**Notes Payable:**

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Kentucky Infrastructure Authority note payable represents a thirty year loan secured by water revenues. Interest is charged at 1.3% per annum. The original principal balance was \$744,796. Payments of principal, interest, and servicing fees are due semiannually.	\$ 469,165	\$ 492,895
<b>Total Notes Payable</b>	<b>\$ 469,165</b>	<b>\$ 492,895</b>
<b>Current Portion</b>	<b>\$ 24,040</b>	<b>\$ 23,730</b>
<b>Noncurrent Portion</b>	<b>445,125</b>	<b>469,165</b>
<b>Total Notes Payable</b>	<b>\$ 469,165</b>	<b>\$ 492,895</b>

**Bonds Payable:**

RECD Revenue Bonds of 1988 Series A, original issue amount of \$290,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2028.	\$ 179,000	\$ 187,000
RECD Revenue Bonds of 1988 Series B, original issue amount of \$108,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2028.	68,000	71,000
RECD Revenue Bonds of 1993, original issue amount of \$420,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2032.	300,000	309,000
RECD Revenue Bonds of 1996, original issue amount of \$371,000, secured by water revenues. Interest is charged at the rate of 4.875% per annum. Final maturity is January 1, 2035.	292,400	299,400

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013 and 2012**

**NOTE 8 – LONG-TERM DEBT (Continued)**

**Bonds Payable: (Continued)**

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
RECD Revenue Bonds of 2000 Series A, original issue amount of \$370,000, secured by water revenues. Interest is charged at the rate of 4.875% per annum. Final maturity is January 1, 2039.	314,100	320,100
RECD Revenue Bonds of 2000 Series B, original issue amount of \$112,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2039.	95,800	97,500
RECD Revenue Bonds of 2002, original issue amount of \$130,000, secured by water revenues. Interest is charged at the rate of 4.625% per annum. Final maturity is January 1, 2042.	116,000	117,900
RECD Revenue Bonds of 2006, Series A, original issue amount of \$1,394,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is January 1, 2046.	1,312,000	1,330,000
RECD Revenue Bonds of 2006, Series B original issue amount of \$500,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is January 1, 2046.	471,600	477,800
<b>Total Bonds Payable</b>	<b>\$ 3,148,900</b>	<b>\$ 3,209,700</b>
<b>Current Portion</b>	<b>\$ 63,900</b>	<b>\$ 60,800</b>
<b>Noncurrent Portion</b>	<b>3,085,000</b>	<b>3,148,900</b>
<b>Total Bonds Payable</b>	<b>\$ 3,148,900</b>	<b>\$ 3,209,700</b>

**Accrued Compensated Absences:**

<b>Current Accrued Compensated Absences</b>	<b>\$ 832</b>	<b>\$ 291</b>
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**Changes in Long-term Debt**

The following is a summary of changes in long-term debt for the years ended December 31, 2013 and 2012.

**December 31, 2013**

	<u>Balance at January 1, 2013</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance at December 31, 2013</u>	<u>Current Portion</u>
Notes Payable	\$ 492,895	\$ -	\$ (23,730)	\$ 469,165	\$ 24,040
Bonds Payable	3,209,700	-	(60,800)	3,148,900	63,900
Accrued Compensated Absences	291	541	-	832	832
<b>Total Enterprise Fund Debt</b>	<b>\$ 3,702,886</b>	<b>\$ 541</b>	<b>\$ (84,530)</b>	<b>\$ 3,618,897</b>	<b>\$ 88,772</b>

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013 and 2012**

**NOTE 8 – LONG-TERM DEBT (Continued)**

**December 31, 2012**

	Balance at January 1, 2012	Additions	Repayments	Balance at December 31, 2012	Current Portion
Notes Payable	\$ 516,320	\$ -	\$ (23,425)	\$ 492,895	\$ 23,730
Bonds Payable	3,267,500	-	(57,800)	3,209,700	60,800
Accrued Compensated Absences	-	291	-	291	291
Total Enterprise Fund Debt	<u>\$ 3,783,820</u>	<u>\$ 291</u>	<u>\$ (81,225)</u>	<u>\$ 3,702,886</u>	<u>\$ 84,821</u>

The annual requirements for all long-term debt outstanding at December 31, 2013, are as follows:

Due	Bonds	Bond Interest	KIA Note	Note Interest	Note Servicing Fee	Total Payments Due
2014	\$ 63,900	\$ 137,698	\$ 24,040	\$ 6,021	\$ 926	\$ 232,585
2015	66,100	134,644	24,353	5,708	878	231,683
2016	69,400	131,438	24,671	5,390	829	231,728
2017	73,500	128,039	24,993	5,068	780	232,380
2018	77,000	124,479	25,319	4,742	730	232,270
2019-2023	443,200	562,738	131,634	18,672	2,873	1,159,117
2024-2028	559,800	444,621	140,446	9,861	1,517	1,156,245
2029-2033	549,400	315,323	73,709	1,444	222	940,098
2034-2038	509,100	197,348	-	-	-	706,448
2039-2043	454,200	94,833	-	-	-	549,033
2044-2046	283,300	12,028	-	-	-	295,328
	<u>\$ 3,148,900</u>	<u>\$ 2,283,189</u>	<u>\$ 469,165</u>	<u>\$ 56,906</u>	<u>\$ 8,755</u>	<u>\$ 5,966,915</u>

The annual requirements for all long-term debt outstanding at December 31, 2012, are as follows:

Due	Bonds	Bond Interest	KIA Note	Note Interest	Note Servicing Fee	Total Payments Due
2013	\$ 60,800	\$ 140,645	\$ 23,730	\$ 6,331	\$ 974	\$ 232,480
2014	63,900	137,698	24,040	6,021	926	232,585
2015	66,100	134,644	24,353	5,708	878	231,683
2016	69,400	131,438	24,671	5,390	829	231,728
2017	73,500	128,039	24,993	5,068	780	232,380
2018-2022	423,500	583,247	129,940	20,366	3,133	1,160,186
2023-2027	533,800	470,554	138,637	11,669	1,795	1,156,455
2028-2032	570,600	340,233	102,531	2,684	414	1,016,462
2033-2037	508,400	219,709	-	-	-	728,109
2038-2042	469,200	113,912	-	-	-	583,112
2043-2046	370,500	23,715	-	-	-	394,215
	<u>\$ 3,209,700</u>	<u>\$ 2,423,834</u>	<u>\$ 492,895</u>	<u>\$ 63,237</u>	<u>\$ 9,729</u>	<u>\$ 6,199,395</u>

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013 and 2012**

**NOTE 9 – COMPENSATED ABSENCES**

Vacation days accumulate as follows:

At the end of 1 <sup>st</sup> year	1 week of vacation
At the end of 2 <sup>nd</sup> year	2 weeks of vacation
At the end of 5 <sup>th</sup> year	3 weeks of vacation

Vacation, if not taken in the calendar year due, is lost, unless specifically approved by the Commissioners. In 2001, the District approved a policy under which employees accrue 5 days of personal leave per year. In 2009, the District approved a policy under which an employee may accumulate up to 60 days (previously it was 30 days) personal leave. The District accrues a liability for compensated absences, which meet the following criteria:

1. The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the District accrues a liability for compensated absences. \$832 and \$291 of accrued compensated absences were payable at December 31, 2013 and December 31, 2012, respectively.

**NOTE 10 – INTEREST EXPENSE**

Interest expense incurred and charged to expense for the years ended December 31, 2013 and 2012 was \$147,951 and \$151,185, respectively. No interest was capitalized in 2013 or 2012.

**NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION**

	2013	2012
Restricted for Debt Service:		
RECD Revenue Bonds of 1988, 1993, 1996, 2000, 2002 and 2006		
Kentucky Infrastructure Authority Note		
Cash	\$ 402,748	\$ 368,378
Add: Accrued Interest Receivable	259	256
Less: Accrued Interest Payable	(70,909)	(72,341)
Total Restricted for Debt Service	<u>\$ 332,098</u>	<u>\$ 296,293</u>

**NOTE 12 – BAD DEBT EXPENSE**

Water revenue charges have been netted with estimated bad debt expense of \$5,976 and \$9,405 at December 31, 2013 and 2012, respectively.

**NOTE 13 – INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. The District is also subject to the risks associated with employee injury. Each of these risks is covered through the premiums paid to Allied World National Assurance Company.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013 and 2012**

**NOTE 14 – THE COUNTY EMPLOYEES' RETIREMENT SYSTEM**

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the Commissioners in November 1999. Beginning December 1, 1999, electing employees and all new employees of the District may participate in the System. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2012 and 2011. (The 2013 audit of the Kentucky Retirement System has not been completed.) Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will also be available to Legislative personnel and state libraries.

**Plan Description** – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2012, the COLA was not granted.

**Contributions** – For the fiscal years ended June 30, 2013, and 2012, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2013 and 2012, participating employers contributed 19.55% and 18.96%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2013 and 2012, were 19.55% and 18.96%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

The District's total payroll for the year ended December 31, 2013, was \$231,757. Contributions were based on \$225,007 (eligible gross wages). The total pension expense for the fiscal year ended December 31, 2013, was \$43,228 and \$11,906 for the employer and employees, respectively. All contributions were made as required during the year ending December 31, 2013.

The District's total payroll for the year ended December 31, 2012, was \$235,410. Contributions were based on \$227,760 (eligible gross wages). The total pension expense for the fiscal year ended December 31, 2012, was \$43,846 and \$11,974 for the employer and employees, respectively. All contributions were made as required during the year ending December 31, 2012.

The District's contribution for the years ended June 30, 2012 and 2011, was .0117% and .0120%, respectively, of the System's total contribution requirements for all employers.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013 and 2012**

**NOTE 14 – THE COUNTY EMPLOYEES' RETIREMENT SYSTEM (Continued)**

For non-hazardous duty, the required contributions to the plan were as follows:

	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Retiree Drug Subsidy Contributions</u>	<u>Percentage Contributions</u>
June 30, 2012	476,185,027	477,661,027	-	94.0%
June 30, 2011	432,414,052	435,404,150	-	100.7%
June 30, 2010	453,055,709	373,682,939	9,156,991	84.5%

The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from CERS. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance for current beneficiaries.

**NOTE 15 – RESALE AGREEMENT**

The District has entered into a water resale agreement with the Kentucky American Water District under which agreement, Gallatin County Water District will sell its water to Kentucky American Water at a price of \$1.46 per thousand gallons. A minimum of 559,567 gallons is required to be purchased monthly. The agreement is for a term of 20 years with automatic one year extensions unless terminated by either party upon written notice as specified. Rates may be modified by providing 180 days notice, or by regulatory authority action.

**NOTE 16 - PURCHASED WATER CONTRACT**

Gallatin County Water District has a long-term contract with the City of Warsaw for the purchase of treated water. The original contract for water became effective July 28, 1986, and extended for a period of forty-five (45) years. On June 13, 2007 the contract was amended. Under the agreement, Gallatin County Water District will be charged \$1.25 per 1,000 gallons purchased, with a minimum of 500,000 gallons to be purchased monthly.

**NOTE 17 – WATER SUPPLY AGREEMENT – ECONOMIC DEPENDENCY**

The District has entered into a water-supply agreement with Kentucky Speedway, LLC. Under the terms of the agreement, Kentucky Speedway, LLC is assessed an annual minimum charge of \$35,000 for annual usage equal to that charge under the District's approved rates. The Speedway is billed monthly the minimum installment plus sales tax and school tax. When accumulated usage exceeds the annual maximum, the Speedway is charged the current rates in effect for that usage. 10.0% and 10.0% of total water revenue was received from Kentucky Speedway, LLC for the years ended December 31, 2013 and 2012, respectively.

**NOTE 18 – COMMITMENTS AND CONTINGENCIES**

The District has motions before the Public Service Commission and Franklin and Gallatin Courts regarding its service area and the provision of services within that area.

During 2012 the Kentucky Department of Transportation was involved in a project for infrastructure improvements near the Kentucky Speedway. As part of that project, transmission lines belonging to the Gallatin County Water District were to be relocated. The District decided to upgrade the size of the lines during the relocation process to better meet future service demands. At December 31, 2012, the District owed the Kentucky Department of Transportation \$43,590 for cost attributable to the increase line size of these transmission lines.

During 2013, the District entered into contracts for relocation and/or improvements to its distribution system at Kentucky Speedway adding an extension to Highway 1039. The costs of these improvements, \$123,940, were paid with District funds.

Under the health insurance plan adopted by the District, employee deductibles are \$1,500 (single plan)/\$3,000 (family plan). The District will pay for eligible medical expenditures incurred by employees above the maximum employee costs determined by the District of \$500 single/\$1,000 family up to the deductible of the plan (\$1,500 single/\$3,000 family). Any unused deductible remains with the District and does not accrue to the benefit of the employee. The estimated potential liability to the District under this policy is \$11,358. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013 and 2012

**NOTE 19 – FINANCIAL STATEMENT RESTATEMENT**

The District adopted Statement of Governmental Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, which amends the financial statement classification of certain items to now be included as deferred inflows and outflows categories on the Statement of Net Position. Under GASBS No. 65, debt issuance costs are no longer to be reported in the Statement of Net Position because the GASB has determined that they do not meet the definition of assets, liabilities, deferred outflows of resources, or deferred inflows of resources. Retroactive application by restating financial statements for all periods presented is required. The effect of the reinstatement is as follows for the year ended December 31, 2012:

**Statement of Net Position:**

Total Net Position as Originally Presented	\$ 3,825,759
Less Net Unamortized Bond Issuance Costs	<u>(40,180)</u>
Total Net Position as Restated	<u><u>\$ 3,785,579</u></u>

The components of Net Position at December 31, 2012 after restatement are as follows:

Net Investment in Capital Assets	\$ 2,631,316
Restricted for Debt Service	296,293
Unrestricted	<u>857,970</u>
Total Net Position	<u><u>\$ 3,785,579</u></u>

**Statement of Revenues, Expenses, and Changes in Fund Net Position:**

Change in Net Position as Originally Reported	\$ (105,405)
Add Back: Amortization Expense of Bond Issuance Costs	<u>1,428</u>
Change in Net Position as Restated	\$ (103,977)
Net Position, January 1, 2012 (as Restated)	<u>3,889,556</u>
Net Position, December 31, 2012 (as Restated)	<u><u>\$ 3,785,579</u></u>

The effect of the restatement on the Net Position at December 31, 2011 is as follows:

Net Position as Originally Reported	\$ 3,931,164
Less Net Unamortized Bond Issuance Costs	<u>(41,608)</u>
Net Position as Restated, December 31, 2011	<u><u>\$ 3,889,556</u></u>

**NOTE 20 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68 is effective for periods beginning after June 15, 2014. Under this statement governments will be required to report the net pension liability associated with its' employee's pension as a liability in their accrual-based financial statements (for example, the government-wide Statement of Net Position). A government has a present obligation to pay deferred benefits earned by its employees. "Net Pension Liability" represents the government's obligation to pay deferred benefits when the total pension [plan's] liability exceeds the pension plan's net assets. This reporting requirement is an important change that will more clearly depict the government's financial position. While this information will, in some cases give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.



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

To the Commissioners of the  
Gallatin County Water District  
Sparta, KY 41086

We have audited, 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, the financial statements of Gallatin County Water District as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Gallatin County Water District's basic financial statements, and have issued our report thereon dated February 28, 2014.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Items 2013-001 and 2013-002).

#### COMPLIANCE AND OTHER MATTERS

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

#### GALLATIN COUNTY WATER DISTRICT'S RESPONSE TO FINDINGS

Gallatin County Water District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Gallatin County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### PURPOSE OF THIS REPORT

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



RAISOR, ZAPP, & WOODS P.S.C  
Certified Public Accountants  
Carrollton, Kentucky

February 28, 2014

**GALLATIN COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2013**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of the Gallatin County Water District.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 2013-001 and 2013-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Gallatin County Water District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**GOVERNMENT AUDITING STANDARDS**

**DEFICIENCIES IN INTERNAL CONTROL**

**2013-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES**

**CONDITION:**

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2012 as 12-1.

**CRITERIA:**

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

**CAUSE:**

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

**EFFECT:**

This limitation may affect the ability to timely record, process, summarize and report financial data.

**RECOMMENDATION:**

Management should strive to provide cross-training for administrative staff and implement checking processes.

**RESPONSE:**

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the staff size and responsibility of financial personnel. Efforts have been made to cross-train employees to improve the staff's ability to rotate duties and increase checking procedures.

**GALLATIN COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES (Continued)  
For the Year Ended December 31, 2013**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)**

**GOVERNMENT AUDITING STANDARDS (Continued)**

**DEFICIENCIES IN INTERNAL CONTROL (Continued)**

**2013-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED  
NOTE DISCLOSURES**

**CONDITION:**

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2012 as 12-2.

**CRITERIA:**

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

**CAUSE:**

The draft financial statements and disclosures are prepared during the audit process.

**EFFECT:**

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements.

**RECOMMENDATION:**

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

**RESPONSE:**

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

**COMPLIANCE AND OTHER MATTERS**

**NONE**

To the Commissioners of the  
Gallatin County Water District  
Sparta, KY 41086

**RURAL DEVELOPMENT COMPLIANCE LETTER**

We have audited the financial statements of Gallatin County Water District as of December 31, 2013, and have issued our report thereon dated February 28, 2014. 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.

In planning and performing our audit of the financial statements of Gallatin County Water District for the year ended December 31, 2013, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Gallatin County Water District's internal control over financial reporting. After obtaining an understanding of the control environment and the flow of transactions through the accounting system, we did not rely on the system of internal accounting controls because of the size of the entity. Our review identified material weaknesses in the internal accounting control system as disclosed in the Schedule of Findings and Responses.

The following information is presented as supplemental information in accordance with USDA Rural Development's requirements.

1. The accounting records of Gallatin County Water District appear adequate.
2. Control over fixed assets is adequate. A supply inventory has been taken.
3. USDA Rural Development loan agreements for the 1988, 1993, 1996, 2000, 2002 and 2006 issues require transfers to be made monthly to the Bond and Interest Sinking Account and Depreciation Account. All accounts are properly funded as of December 31, 2013. Transfers required under the 2006 issues to the Depreciation Account and those required in the establishment of a short lived asset account began in January, 2008. Withdrawals of approximately \$174,000 were made from the short lived asset account for line improvements.
4. The general accounting records were kept on forms and in the manner suggested by Rural Development.
5. All bank accounts were confirmed directly by the depositories and reconciled to the cash balances as shown in these financial statements. The accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation. Additionally the Bond and Interest Sinking Fund of the District is secured by FDIC Insurance (\$150,529). Deposits in excess of FDIC coverage at First Farmers Bank are secured by Federal Home Loan Bank letters of credit totaling \$575,000 and pledged securities with a market value of \$299,496.

6. Insurance coverage may be summarized as follows:

<u>General Liability</u>	\$ 3,000,000	\$1,000,000 Each Occurrence Limit
<u>Public Officials Liability Coverage</u>		
<u>Employment Practices Liability Coverage</u>	\$ 1,000,000	Annual Aggregate \$3,000,000
<u>Vehicles &amp; Equipment</u>	\$ 1,000,000	Liability/Each Accident
<u>Underinsured Motorists Coverage</u>	\$ 250,000	
<u>Property, Buildings, Tanks &amp; Equipment</u>	\$ 4,122,716	(Not more than 125% of applicable building limit or personal property limit as indicated in the Statement of Values)
<u>Commercial Excess Liability Policy</u>	\$ 3,000,000	
<u>Employee Dishonesty</u>	\$ 100,000	
<u>Fidelity Bond (Position)</u>		
Commissioner (2 Positions)	\$ 211,000	
Secretary/Bookkeeper	211,000	
Office Manager	211,000	
<u>Position Bond</u>		
Commissioner(s) & Office Manager	\$ 100,000	each
<u>Workmen's Compensation</u>		
All employees		Statutory

7. Gallatin County Water District is a governmental unit and thus exempt from income taxes.

8. Accounts receivable as of December 31, 2013, may be aged as follows.

<u>Total Accounts Receivable</u>	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>Over 60</u>
\$ 133,622	\$ 119,264	\$ 9,439	\$ 4,919

  

<u>Total Accounts Receivable</u>	<u>Allowance for Uncollectibles</u>	<u>Net Accounts Receivable</u>
\$ 133,622	\$ 10,243	\$ 123,379

Respectfully submitted,

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants  
Carrollton, Kentucky

February 28, 2014

**Commissioners of Gallatin County Water District  
4500 Highway 455  
Sparta, Kentucky 41086**

In planning and performing our audit of the financial statements of Gallatin County Water District as of and for the year ended December 31, 2013, we considered the District's internal control 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 structure.

We previously reported on the District's internal control in our report dated February 28, 2014. A separate report contains our report on deficiencies in the District's internal control. This letter does not affect our report dated February 28, 2014, on the financial statements of Gallatin County Water District.

We found the District's accounting system to be capable of providing essential information for effective operating and financial control of the District's operations. At the same time, we observed certain areas where procedural modifications or revisions might provide better internal control. This letter summarizes our comments and suggestions regarding those matters.

We have cited the size of the administrative staff as a material weakness. As a small entity, the District has limited ability to rotate duties. With these limitations, the possibility for a material error in the records increases. However, the District has taken some steps to cross train the administrative staff and increase its documentation of checking procedures performed.

These procedures include the Commissioners' review of disbursements, bill adjustments, and bank statements at the monthly meetings, and dual signatures on larger expenditures. Although the office staff may be aware of purchases made and employee schedules, supervisory authorizations of time records and expenditures [as to receipt, coding, etc] document the approval process.

We would like to compliment the Commissioner's and management personnel for their efforts to document oversight procedures and cross-train employees to provide security to the District. We encourage all to continue in these endeavors.

Adjustments were made to the trial balance provided by the District as described in our communication to those in governance. Some of these [prepaid insurance/insurance expense and accrued interest/interest expense] may be remedied by maintaining control schedules to tie to the general ledger monthly.

In our review of disbursements an instance where sales tax was paid was noted. Invoices should always be reviewed for sales tax charges as the District is not subject to this tax.

We would like to compliment the District's on the efforts made to address each suggestion and concern made by our office and the timeliness of addressing such concerns. Such prompt attention and response is indicative of the desire to maintain controls as best as can be achieved with the available District resources. The staff, as always, was most cordial and cooperative with us throughout the audit process.

To the Commissioners of the  
Gallatin County Water District  
Sparta, Kentucky  
Page Two

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of management, the Rural Economic Community Development Service, Kentucky Infrastructure Authority, other lending agencies, and the Public Service Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants  
Carrollton, Kentucky

February 28, 2014