

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

At December 31, 2014 and 2013

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

Years Ended December 31, 2014 and 2013

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RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008
502-732-6655 • taxes@rzwcpas.com

Dennis S. Raisor, CPA
Jerilyn P. Zapp, CPA
Jeffery C. Woods, CPA
Susan A. Dukes, CPA

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, 2014 and 2013, 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, 2014 and 2013, 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 generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2015, 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

March 11, 2015

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

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, 2014. 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.

FINANCIAL HIGHLIGHTS

The following are key financial highlights:

- Total assets at year-end were \$7,317,688 and exceeded liabilities in the amount of \$3,638,275 (i.e. net position). Of the total net position, \$892,765 was unrestricted and was available to support short-term operations. Total net position decreased from year end 2013 to 2014 in the amount of \$22,601.
- Total Operating Revenues increased \$135,102 during the year attributed mainly to the rate increase that went into effect on November 1, 2013 and an increase in connection fees.
- Operating expenses increased by \$36,118 attributed mainly to an increase in required sampling, line maintenance and an increase in purchased water due to the line maintenance. Bank service charges decreased mainly due to changes in the customer bill pay options.
- The District was in compliance with all debt covenants required by borrowing agreements.

Balance Sheet, Statement of Net Position

Utility Plant decreased by \$281,434 net of depreciation, in 2014. (See diagram below.)

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

Condensed Assets

| | <u>2014</u> | <u>2013</u> | <u>Difference</u> |
|--------------------------|---------------------|---------------------|---------------------|
| Utility Plant | \$ 5,861,970 | \$ 6,143,404 | \$ (281,434) |
| Current Assets | 870,003 | 828,155 | \$ 41,848 |
| Other Non-current Assets | 585,715 | 447,879 | \$ 137,836 |
| Total Net Assets | <u>\$ 7,317,688</u> | <u>\$ 7,419,438</u> | <u>\$ (101,750)</u> |

At the end of December 31, 2014, the District had \$5,861,970 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

| | <u>2014</u> | <u>2013</u> |
|---------------------------|---------------------|---------------------|
| Land & Rights | \$ 226,229 | \$ 226,229 |
| Structures & Improvements | 254,626 | 248,534 |
| Distribution System | 5,125,012 | 5,384,684 |
| Wells | 223,189 | 237,097 |
| Machinery & Equipment | 32,914 | 46,860 |
| Construction in Process | <u>-</u> | <u>-</u> |
| Totals | <u>\$ 5,861,970</u> | <u>\$ 6,143,404</u> |

This year's major additions included:

- There were no major additions to the Distribution system only minor upgrades to the District's well and pumping stations. Construction was completed on the new 30 x 40 storage building.

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, 2014.

Condensed Liabilities

| | <u>2014</u> | <u>2013</u> | <u>Difference</u> |
|-------------------------------|---------------------|---------------------|--------------------|
| Long Term Debt | \$ 3,464,670 | \$ 3,550,283 | \$ (85,613) |
| Current & Accrued Liabilities | 214,743 | 208,279 | \$ 6,464 |
| Total Liabilities | <u>\$ 3,679,413</u> | <u>\$ 3,758,562</u> | <u>\$ (79,149)</u> |

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

Net Position

At December 31, 2014, net position decreased \$22,601, as a result of contributions in aid of construction of \$11,022 offset by the District's loss from operations (before contributions) of \$33,623.

Condensed Net Position

| | <u>2014</u> | <u>2013</u> | <u>Difference</u> |
|-----------------------------------|---------------------|---------------------|--------------------|
| Net Investments in Capital Assets | \$ 2,331,845 | \$ 2,525,339 | \$ (193,494) |
| Restricted for Debt Service | 413,665 | 332,098 | 81,567 |
| Unrestricted | 892,765 | 803,439 | 89,326 |
| Total | <u>\$ 3,638,275</u> | <u>\$ 3,660,876</u> | <u>\$ (22,601)</u> |

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

Operating Revenues for 2014 increased by \$135,102 due mainly to the rate increase that went into effect on November 1, 2013. Operating expenses increased by \$36,118 in 2014. Depreciation also decreased.

Condensed Statement of Revenues and Expenses

| | <u>2014</u> | <u>2013</u> | <u>Difference</u> |
|------------------------------------|--------------------|---------------------|-------------------|
| Operating Revenues | \$ 1,079,080 | \$ 943,978 | \$ 135,102 |
| Operating Expenses | 972,943 | 936,825 | 36,118 |
| Net-Operating Revenue | \$ 106,137 | \$ 7,153 | \$ 98,984 |
| Non-Operating Revenue (Expenses) | (139,760) | (142,076) | 2,316 |
| Income (Loss) Before Contributions | <u>\$ (33,623)</u> | <u>\$ (134,923)</u> | <u>\$ 101,300</u> |

Statement of Cash Flows

Cash from Operating Activities was up \$120,271 in 2014. Cash from capital and related financing activities in 2014 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>2014</u> | <u>2013</u> | <u>Difference</u> |
|--|-------------------|-------------------|-------------------|
| Cash from Operating Activities | \$ 437,673 | \$ 317,402 | \$ 120,271 |
| Cash from Capital & Related Financing Activities | (249,314) | (418,407) | 169,093 |
| Cash from Investing Activities | 1,589 | 1,591 | \$ (2) |
| Change in Cash | \$ 189,948 | \$ (99,414) | \$ 289,362 |
| Cash Balance, Beginning of Year | 463,061 | 562,475 | (99,414) |
| Cash Balance, End of Year | <u>\$ 653,009</u> | <u>\$ 463,061</u> | <u>\$ 189,948</u> |

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

Debt

At year-end, the District had \$3,530,859 in notes payable, bonds payable and accrued compensated absences compared to \$3,618,897 last year as shown below. The decrease is attributable to the payment of scheduled principal and interest payments.

| | <u>2014</u> | <u>2013</u> |
|------------------------------|---------------------|---------------------|
| Notes Payable | \$ 445,125 | \$ 469,165 |
| Bonds Payable | 3,085,000 | 3,148,900 |
| Accrued Compensated Absences | 734 | 832 |
| Totals | <u>\$ 3,530,859</u> | <u>\$ 3,618,897</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District anticipates a decrease in operating expenses in 2015 mainly due to the upgrades to the wells and pumping stations made in 2014 and a decreased sampling schedule.

The District plans to purchase smaller maintenance vehicles to reduce the transportation cost and vehicle maintenance expenses.

The District anticipates no changes in customer rates but anticipates an increase in operating revenues due to increase commercial sales to Mississippi Lime Company,

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, 2014 and 2013

| | 2014 | 2013 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash, Including Time Deposits | \$ 693,245 | \$ 637,843 |
| Accounts Receivable Trade (Net) | 127,172 | 123,379 |
| Accounts Receivable - Other | 895 | 21,125 |
| Interest Receivable | 721 | 745 |
| Inventory | 35,489 | 33,555 |
| Prepaid Expense | 12,481 | 11,508 |
| Total Current Assets | <u>\$ 870,003</u> | <u>\$ 828,155</u> |
| Noncurrent Assets: | | |
| Restricted Assets: | | |
| Cash, Including Time Deposits | \$ 585,558 | \$ 447,620 |
| Interest Receivable | 157 | 259 |
| Capital Assets (Net) | 5,861,970 | 6,143,404 |
| Total Noncurrent Assets | <u>\$ 6,447,685</u> | <u>\$ 6,591,283</u> |
| Total Assets | <u>\$ 7,317,688</u> | <u>\$ 7,419,438</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 21,354 | \$ 32,399 |
| Accounts Payable Capital Assets | 13,866 | - |
| Accrued Wages | 2,563 | 6,490 |
| Accrued Compensated Absences | 734 | 832 |
| Accrued Payroll Taxes/Employee Withholding | 13,651 | 6,963 |
| Utility Tax Payable | 2,327 | 2,335 |
| Sales Tax Payable | 390 | 411 |
| Current Liabilities Payable from Restricted Assets: | | |
| Accrued Interest Payable | 69,405 | 70,909 |
| Revenue Bonds Payable | 66,100 | 63,900 |
| Note Payable - Kentucky Infrastructure Authority | 24,353 | 24,040 |
| Total Current Liabilities | <u>\$ 214,743</u> | <u>\$ 208,279</u> |
| Noncurrent Liabilities: | | |
| Revenue Bonds Payable | \$ 3,018,900 | \$ 3,085,000 |
| Note Payable - Kentucky Infrastructure Authority | 420,772 | 445,125 |
| Escrow - Customer Construction Deposits | 350 | 350 |
| Noncurrent Liabilities Payable from Restricted Assets: | | |
| Customer Deposits Payable | 24,648 | 19,808 |
| Total Noncurrent Liabilities | <u>\$ 3,464,670</u> | <u>\$ 3,550,283</u> |
| Total Liabilities | <u>\$ 3,679,413</u> | <u>\$ 3,758,562</u> |
| NET POSITION | | |
| Net Investment in Capital Assets | \$ 2,331,845 | \$ 2,525,339 |
| Restricted for Debt Service | 413,665 | 332,098 |
| Unrestricted | 892,765 | 803,439 |
| Total Net Position | <u>\$ 3,638,275</u> | <u>\$ 3,660,876</u> |

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2014 and 2013

| Operating Revenues: | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Charges for Services: | | |
| Water Charges (Net of Estimated Bad Debts) | \$ 1,017,203 | \$ 890,934 |
| Total Charges for Services | <u>\$ 1,017,203</u> | <u>\$ 890,934</u> |
| Other Charges and Miscellaneous: | | |
| Billing Service Charges | \$ 34,703 | \$ 35,503 |
| Connection Fees | 24,700 | 16,730 |
| Miscellaneous | 2,474 | 811 |
| Total Other Charges and Miscellaneous | <u>\$ 61,877</u> | <u>\$ 53,044</u> |
| Total Operating Revenues | <u>\$ 1,079,080</u> | <u>\$ 943,978</u> |
| Operating Expenses: | | |
| Bank Charges | \$ 2,529 | \$ 8,149 |
| Commissioner Fees | 7,200 | 6,750 |
| Contractual Service - Sampling | 15,363 | 6,734 |
| Dues | 1,653 | 1,968 |
| Health Insurance | 81,596 | 81,292 |
| Insurance | 22,071 | 19,684 |
| Labor | 235,631 | 221,643 |
| Maintenance of Mains | 74,236 | 52,899 |
| Office Supplies and Expense | 23,226 | 23,771 |
| Other Interest Expense | 26 | 31 |
| Payroll Taxes | 17,146 | 15,536 |
| Professional Services | 12,001 | 11,442 |
| Purchased Water | 10,945 | 7,660 |
| Regulatory Fees | 1,854 | 1,723 |
| Retirement Expense | 43,800 | 42,241 |
| Travel/Transportation Expense | 21,219 | 23,835 |
| Uniforms | 3,716 | 2,398 |
| Utilities - Office | 13,411 | 13,048 |
| Utilities - Pumping | 63,743 | 65,653 |
| Depreciation Expense | 321,577 | 330,368 |
| Total Operating Expenses | <u>\$ 972,943</u> | <u>\$ 936,825</u> |
| Operating Income (Loss) | <u>\$ 106,137</u> | <u>\$ 7,153</u> |
| Nonoperating Revenue (Expense): | | |
| Investment Income | \$ 4,855 | \$ 5,844 |
| Interest Expense | (144,615) | (147,920) |
| Total Nonoperating Revenues (Expense) | <u>\$ (139,760)</u> | <u>\$ (142,076)</u> |
| Income (Loss) Before Contributions | \$ (33,623) | \$ (134,923) |
| Capital Contributions | <u>11,022</u> | <u>10,220</u> |
| Change in Net Position | \$ (22,601) | \$ (124,703) |
| Net Position--Beginning of Year | <u>3,660,876</u> | <u>3,785,579</u> |
| Net Position--End of Year | <u>\$ 3,638,275</u> | <u>\$ 3,660,876</u> |

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|------------------------------|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Customers | \$ 1,100,328 | \$ 902,931 |
| Payments to Suppliers | (99,133) | (42,040) |
| Payments to Employees | (246,856) | (226,537) |
| Other Receipts (Payments) | (316,666) | (316,952) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 437,673</u> | <u>\$ 317,402</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Contributions | \$ 11,022 | \$ 10,220 |
| Purchases of Capital Assets | (26,277) | (194,745) |
| Principal Paid on Capital Debt | (87,940) | (84,530) |
| Interest Paid on Capital Debt (including capitalized interest) | (146,119) | (149,352) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>\$ (249,314)</u> | <u>\$ (418,407)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Investments | \$ (3,392) | \$ (4,503) |
| Interest on Investments | 4,981 | 6,094 |
| Net Cash Provided (Used) by Investing Activities | <u>\$ 1,589</u> | <u>\$ 1,591</u> |
| Net (Decrease) in Cash and Cash Equivalents | \$ 189,948 | \$ (99,414) |
| Balances-Beginning of the Year | <u>463,061</u> | <u>562,475</u> |
| Balances-End of the Year | <u><u>\$ 653,009</u></u> | <u><u>\$ 463,061</u></u> |

| | Balances Per December 31, 2014 Statement of Net Position | Balances Per December 31, 2014 Statement of Cash Flows |
|---|---|---|
| Cash | \$ 142,472 | \$ 142,472 |
| Time Deposits | 550,773 | - |
| Restricted Cash | 510,537 | 510,537 |
| Restricted Time Deposits | 75,021 | - |
| Total Cash and Cash Equivalents, End of Year | <u>\$ 1,278,803</u> | <u>\$ 653,009</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> |

(Continued)

**GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013**

| | <u>2014</u> | <u>2013</u> |
|--|--------------------------|--------------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating Income (Loss) | \$ 106,137 | \$ 7,153 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | |
| Cash Flows Reported in Other Categories: | | |
| Depreciation Expense | 321,577 | 330,368 |
| Change in Assets and Liabilities: | | |
| Receivables, Net | 16,437 | (41,362) |
| Inventories | (1,934) | (2,856) |
| Prepaid Expenses | (973) | (902) |
| Accounts and Other Payables | (11,045) | 22,277 |
| Accrued Expenses | 2,634 | 2,759 |
| Customer Meter Deposits Payable | <u>4,840</u> | <u>(35)</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 437,673</u></u> | <u><u>\$ 317,402</u></u> |

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2014 and 2013, Gallatin County Water District had incurred \$13,866 and \$-0- in capital expenditures included in accounts payable - capital assets, respectively.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013**

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, 2014 and 2013

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

Deferred Outflows and Deferred Inflows are not assets or liabilities; revenues or expenses. Rather they represent resources or the use of resources related to future periods.

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, 2014 and 2013. Tap-on fees of \$11,022 and \$10,220 were received by the District for the years ended December 31, 2014 and 2013.

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, 2014 and 2013**

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, 2014 and 2013.

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 2014 and 2013.

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 2014 and 2013, \$13,701 and \$174,391, 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.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's Deposits may not be returned to it. As of December 31, 2014 and 2013, in accordance with the District's policy, \$1,278,713 and \$975,529 respectively, of the District's deposits were covered by federal depository insurance or Federal Home Loan Bank letters of credit. Additionally the depository had pledged securities held by the financial institution's agent in the District's name with market values of \$285,694 and \$299,496 at December 31, 2014 and 2013, respectively, as additional collateral. Thus the District had no deposits that were exposed to custodial credit risk.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

NOTE 3 – CASH AND INVESTMENTS (Continued)

December 31, 2014

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Total Carrying Value</u> |
|---------------------------|-------------------------------|---------------------------------|
| Demand Deposits | \$ 143,586 | \$ 142,383 |
| Time and Savings Deposits | 1,136,330 | 1,136,330 |
| Total Deposits | <u>\$ 1,279,916</u> | <u>\$ 1,278,713</u> |

December 31, 2013

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Total Carrying Value</u> |
|---------------------------|-------------------------------|---------------------------------|
| Demand Deposits | \$ 84,127 | \$ 83,937 |
| Time and Savings Deposits | 1,001,553 | 1,001,466 |
| Total Deposits | <u>\$ 1,085,680</u> | <u>\$ 1,085,403</u> |

Reconciliation to Statement of Net Position:

| | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|--|--------------------------|--------------------------|
| Unrestricted Cash, Including Time Deposits | \$ 693,245 | \$ 637,843 |
| Restricted Cash, Including Time Deposits | 585,558 | 447,620 |
| Less Cash on Hand | (90) | (60) |
| | <u>\$ 1,278,713</u> | <u>\$ 1,085,403</u> |

NOTE 4 – RESTRICTED ASSETS

Restricted cash and investments consist of the following:

| | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|--|--------------------------|--------------------------|
| Bond and Interest Sinking Account | \$ 211,924 | \$ 150,529 |
| Depreciation Account | 222,257 | 207,001 |
| Customer Deposits | 30,842 | 25,952 |
| Speedway Maintenance and Replacement Reserve | 48,732 | 45,218 |
| Short Lived Assets Account | <u>71,803</u> | <u>18,920</u> |
| Total | <u>\$ 585,558</u> | <u>\$ 447,620</u> |

Restricted receivables consist of the following:

| | <u>December 31, 2014</u> | <u>December 31, 2013</u> |
|---------------------|--------------------------|--------------------------|
| Interest Receivable | \$ 157 | \$ 259 |
| Total | <u>\$ 157</u> | <u>\$ 259</u> |

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$14,560 and \$10,243 at December 31, 2014 and 2013, 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, 2014 and 2013**

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2014 and 2013, was as follows:

| | Balance at January 1, 2014 | Additions | Disposals | Balance at December 31, 2014 |
|--------------------------------|-------------------------------|---------------------|-------------|---------------------------------|
| Land & Land Rights | \$ 226,229 | \$ - | \$ - | \$ 226,229 |
| Organizational Fees | 31,926 | - | - | 31,926 |
| Structures & Improvements | 344,910 | 15,255 | - | 360,165 |
| Distribution System | 8,825,284 | 24,888 | - | 8,850,172 |
| Wells | 372,187 | - | - | 372,187 |
| Machinery & Equipment | 256,957 | - | - | 256,957 |
| Totals at Historical Cost | <u>\$ 10,057,493</u> | <u>\$ 40,143</u> | <u>\$ -</u> | <u>\$ 10,097,636</u> |
| Less: Accumulated Depreciation | | | | |
| Organizational Fees | \$ 31,926 | \$ - | \$ - | \$ 31,926 |
| Structures & Improvements | 96,376 | 9,163 | - | 105,539 |
| Distribution System | 3,440,600 | 284,560 | - | 3,725,160 |
| Wells | 135,090 | 13,908 | - | 148,998 |
| Machinery & Equipment | 210,097 | 13,946 | - | 224,043 |
| Total Accumulated Depreciation | <u>\$ 3,914,089</u> | <u>\$ 321,577</u> | <u>\$ -</u> | <u>\$ 4,235,666</u> |
| Capital Assets, Net | <u>\$ 6,143,404</u> | <u>\$ (281,434)</u> | <u>\$ -</u> | <u>\$ 5,861,970</u> |

| | 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> |

Land and land rights are capital assets not being depreciated. Included under the District's plant assets were \$501,626 and \$413,843 of fully depreciated assets, at December 31, 2014 and 2013, respectively.

Depreciation expense aggregated \$321,577 and \$330,368 in 2014 and 2013, respectively.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

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, 2014 and 2013, the long-term debt payable consisted of the following:

Notes Payable:

| | <u>December 31, 2014</u> | <u>December 31, 2013</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. | \$ 445,125 | \$ 469,165 |
| Total Notes Payable | \$ 445,125 | \$ 469,165 |
| Current Portion | \$ 24,353 | \$ 24,040 |
| Noncurrent Portion | 420,772 | 445,125 |
| Total Notes Payable | \$ 445,125 | \$ 469,165 |

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. | \$ 171,000 | \$ 179,000 |
| 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. | 65,000 | 68,000 |
| 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. | 290,000 | 300,000 |
| 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. | 285,000 | 292,400 |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

NOTE 8 – LONG-TERM DEBT (Continued)

Bonds Payable: (Continued)

| | <u>December 31, 2014</u> | <u>December 31, 2013</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. | 307,900 | 314,100 |
| 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. | 93,900 | 95,800 |
| 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. | 114,100 | 116,000 |
| 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. | 1,293,000 | 1,312,000 |
| 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. | 465,100 | 471,600 |
| Total Bonds Payable | \$ 3,085,000 | \$ 3,148,900 |
| Current Portion | \$ 66,100 | \$ 63,900 |
| Noncurrent Portion | 3,018,900 | 3,085,000 |
| Total Bonds Payable | \$ 3,085,000 | \$ 3,148,900 |

Accrued Compensated Absences:

| | | |
|---|---------------|---------------|
| Current Accrued Compensated Absences | \$ 734 | \$ 832 |
|---|---------------|---------------|

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2014 and 2013.

December 31, 2014

| | <u>Balance at January 1, 2014</u> | <u>Additions</u> | <u>Repayments</u> | <u>Balance at December 31, 2014</u> | <u>Current Portion</u> |
|-----------------------------------|---------------------------------------|------------------|-------------------|---|----------------------------|
| Notes Payable | \$ 469,165 | \$ - | \$ 24,040 | \$ 445,125 | \$ 24,353 |
| Bonds Payable | 3,148,900 | - | 63,900 | 3,085,000 | 66,100 |
| Accrued Compensated Absences | 832 | - | 98 | 734 | 734 |
| Total Enterprise Fund Debt | \$ 3,618,897 | \$ - | \$ 88,038 | \$ 3,530,859 | \$ 91,187 |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

NOTE 8 – LONG-TERM DEBT (Continued)

December 31, 2013

| | Balance at January 1, 2013 | Additions | Repayments | Balance at December 31, 2013 | Current Portion |
|------------------------------|-------------------------------|---------------|--------------------|---------------------------------|--------------------|
| 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 |
| Total Enterprise Fund Debt | <u>\$ 3,702,886</u> | <u>\$ 541</u> | <u>\$ (84,530)</u> | <u>\$ 3,618,897</u> | <u>\$ 88,772</u> |

The annual requirements for all long-term debt outstanding at December 31, 2014, are as follows:

| Due | Bonds | Bond Interest | KIA Note | Note Interest | Note Servicing Fee | Total Payments Due |
|-----------|---------------------|---------------------|-------------------|------------------|-----------------------|-----------------------|
| 2015 | \$ 66,100 | \$ 137,698 | \$ 24,353 | \$ 5,708 | \$ 878 | \$ 234,737 |
| 2016 | 69,400 | 134,644 | 24,671 | 5,390 | 829 | 234,934 |
| 2017 | 73,500 | 131,438 | 24,993 | 5,068 | 780 | 235,779 |
| 2018 | 77,000 | 128,039 | 25,319 | 4,742 | 730 | 235,830 |
| 2019 | 81,200 | 124,479 | 25,649 | 4,412 | 679 | 236,419 |
| 2020-2024 | 462,600 | 562,738 | 133,351 | 16,955 | 2,608 | 1,178,252 |
| 2025-2029 | 564,200 | 444,621 | 142,277 | 8,029 | 1,235 | 1,160,362 |
| 2030-2034 | 550,600 | 315,323 | 44,512 | 580 | 89 | 911,104 |
| 2035-2039 | 509,400 | 197,348 | - | - | - | 706,748 |
| 2040-2044 | 438,000 | 94,833 | - | - | - | 532,833 |
| 2045-2046 | 193,000 | 12,028 | - | - | - | 205,028 |
| | <u>\$ 3,085,000</u> | <u>\$ 2,283,189</u> | <u>\$ 445,125</u> | <u>\$ 50,884</u> | <u>\$ 7,828</u> | <u>\$ 5,872,026</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 | \$ 139,171 | \$ 24,040 | \$ 6,021 | \$ 926 | \$ 234,058 |
| 2015 | 66,100 | 137,698 | 24,353 | 5,708 | 878 | 234,737 |
| 2016 | 69,400 | 134,644 | 24,671 | 5,390 | 829 | 234,934 |
| 2017 | 73,500 | 131,438 | 24,993 | 5,068 | 780 | 235,779 |
| 2018 | 77,000 | 128,039 | 25,319 | 4,742 | 730 | 235,830 |
| 2019-2023 | 443,200 | 583,247 | 131,634 | 18,672 | 2,873 | 1,179,626 |
| 2024-2028 | 559,800 | 470,554 | 140,446 | 9,861 | 1,517 | 1,182,178 |
| 2029-2033 | 549,400 | 340,233 | 73,709 | 1,444 | 222 | 965,008 |
| 2034-2038 | 509,100 | 219,709 | - | - | - | 728,809 |
| 2039-2043 | 454,200 | 113,912 | - | - | - | 568,112 |
| 2044-2046 | 283,300 | 23,715 | - | - | - | 307,015 |
| | <u>\$ 3,148,900</u> | <u>\$ 2,422,360</u> | <u>\$ 469,165</u> | <u>\$ 56,906</u> | <u>\$ 8,755</u> | <u>\$ 6,106,086</u> |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

NOTE 9 – COMPENSATED ABSENCES

Vacation days accumulate as follows:

| | |
|------------------------------------|---------------------|
| At the end of 1 st year | 1 week of vacation |
| At the end of 2 nd year | 2 weeks of vacation |
| At the end of 5 th 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. \$734 and \$832 of accrued compensated absences were payable at December 31, 2014 and December 31, 2013, respectively.

NOTE 10 – INTEREST EXPENSE

Interest expense incurred and charged to expense for the years ended December 31, 2014 and 2013 was \$144,641 and \$147,951, respectively. No interest was capitalized in 2014 or 2013.

NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Restricted for Debt Service: | | |
| RECD Revenue Bonds of 1988, 1993, 1996, 2000, 2002 and 2006 | | |
| Kentucky Infrastructure Authority Note | | |
| Cash | \$ 482,913 | \$ 402,748 |
| Add: Accrued Interest Receivable | 157 | 259 |
| Less: Accrued Interest Payable | (69,405) | (70,909) |
| Total Restricted for Debt Service | <u>\$ 413,665</u> | <u>\$ 332,098</u> |

NOTE 12 – BAD DEBT EXPENSE

Water revenue charges have been netted with estimated bad debt expense of \$13,785 and \$5,976 at December 31, 2014 and 2013, 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, 2014 and 2013

NOTE 14 – THE COUNTY EMPLOYEES’ RETIREMENT SYSTEM

Entry into the Commonwealth of Kentucky’s County Employees’ Retirement System (CERS) was authorized by the Commissioners. 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, 2014. 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, 2013, the COLA was not granted.

Contributions – For the fiscal years ended June 30, 2014, and 2013, 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 78.545(33), 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. The Board may amend contribution rates as of the first day of July of the second year of a 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, 2014 and 2013, participating employers contributed 18.89% and 19.55%, respectively, of each employee’s creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2014 and 2013, were 18.89% and 19.55%, 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.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were 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. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member’s account and is not refundable. The employer contributes a set percentage of the member’s salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

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

The District's total payroll for the year ended December 31, 2014, was \$250,626. Contributions were based on \$243,426 (eligible gross wages). The total pension expense for the fiscal year ended December 31, 2014, was \$44,467 and \$12,891 for the employer and employees, respectively. All contributions were made as required during the year ending December 31, 2014.

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 contribution for the years ended June 30, 2014 and 2013, was .0177% and .0187%, respectively, of the System's total contribution requirements for all employers.

For non-hazardous duty, the required contributions to the plan for all participating employees were as follows (\$ in thousands):

County Employees Retirement System (CERS) – Pension Funds

| | <u>Annual Required Contributions</u> | <u>Actual Contributions</u> | <u>Actual Contributions as a Percentage of Covered Employee Payroll</u> |
|---------------|--|---------------------------------|---|
| June 30, 2014 | 324,231 | 324,231 | 14.27% |
| June 30, 2013 | 294,914 | 294,914 | 13.19% |
| June 30, 2012 | 261,764 | 275,736 | 12.33% |

County Employees Retirement System (CERS) – Insurance Funds

| | <u>Annual Required Contributions</u> | <u>Actual Contributions</u> | <u>Percentage Contributed</u> |
|---------------|--|---------------------------------|-----------------------------------|
| June 30, 2014 | 130,652 | 123,278 | 94.40% |
| June 30, 2013 | 195,561 | 159,993 | 81.80% |
| June 30, 2012 | 214,421 | 171,925 | 80.20% |

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.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

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. 3.8% and 5.8% of total water revenue was received from Kentucky Speedway, LLC for the years ended December 31, 2014 and 2013, 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 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 \$4,558 and \$11,358 at December 31, 2014 and 2013 respectively. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

NOTE 19 – 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.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008
502-732-6655 • taxes@rzwcpas.com

Dennis S. Raisor, CPA
Jerilyn P. Zapp, CPA
Jeffery C. Woods, CPA
Susan A. Dukes, CPA

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gallatin County Water District as of and for the year ended December 31, 2014, 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 March 11, 2015.

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 2014-001 and 2014-002).

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.

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

March 11, 2015

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2014**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified 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 2014-001 and 2014-002 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

2014-001 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, 2013 as 2013-001.

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, 2014**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

**2014-002 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, 2013 as 2013-002.

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

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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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, 2014, and have issued our report thereon dated March 11, 2015. 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, 2014, 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, 2014. 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 \$13,700 were made from the short lived asset account for payments toward a new maintenance building and well repairs.
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 (\$211,924). Deposits in excess of FDIC coverage at First Farmers Bank are secured by Federal Home Loan Bank letters of credit totaling \$750,000 and pledged securities with a market value of \$285,694.

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 & Equipment</u> | \$ 1,000,000 | Liability/Each Accident |
| <u>Underinsured Motorists Coverage</u> | \$ 250,000 | |
| <u>Property, Buildings, Tanks & Equipment</u> | \$ 4,112,737 | (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, 2014, may be aged as follows.

| <u>Total Accounts Receivable</u> | <u>1-30 Days</u> | <u>31-60 Days</u> | <u>Over 60</u> |
|----------------------------------|-------------------------------------|--------------------------------|----------------|
| \$ 141,732 | \$ 124,474 | \$ 12,284 | \$ 4,974 |
| <u>Total Accounts Receivable</u> | <u>Allowance for Uncollectibles</u> | <u>Net Accounts Receivable</u> | |
| \$ 141,732 | \$ 14,560 | \$ 127,172 | |

Respectfully submitted,

Raisor, Zapp & Woods, PSC

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

March 11, 2015