

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

**At December 31, 2016 and 2015**

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

**Years Ended December 31, 2016 and 2015**

**TABLE OF CONTENTS**

<b>Independent Auditor's Report</b>	<b>1-2</b>
<b>Management's Discussion and Analysis</b>	<b>3-6</b>
<b>Basic Financial Statements:</b>	
<b>Statement of Net Position</b>	<b>7</b>
<b>Statement of Revenues, Expenses, and Changes in Fund Net Position</b>	<b>8</b>
<b>Statement of Cash Flows</b>	<b>9-10</b>
<b>Notes to Basic Financial Statements</b>	<b>11-26</b>
<b>Required Supplemental Information</b>	
<b>Schedule of the District's Proportionate Share of the Net Pension Liability –         County Employees Retirement System</b>	<b>27</b>
<b>Schedule of the District's Contributions – County Employees Retirement System</b>	<b>28</b>
<b>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 <u>Government Auditing Standards</u></b>	<b>29-30</b>
<b>Schedule of Findings and Responses</b>	<b>31-32</b>

# RAISOR, ZAPP & WOODS, PSC

## Certified Public Accountants

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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, 2016 and 2015, 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, 2016 and 2015, 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, the Schedule of the District's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 27, and the Schedule of the District's Contributions – County Employee Retirement System on page 28 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 June 23, 2017, 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

June 23, 2017

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

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, 2016. Please read it in conjunction with the District's financial statements, which begin on page 7.

**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.

During 2015 the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*. Under these statements, the District is required to report the net pension liability associated with its' employees' pensions as a liability. It is also required to report a deferred outflow of resources for its pension contributions made subsequent to the measurement date of the net pension liability. These balances reflect the District's obligation to pay deferred benefits earned by its employees when the pension plan's liability exceeds the value of the pension plan's assets.

**FINANCIAL HIGHLIGHTS**

The following are key financial highlights:

- Total assets at year-end of \$7,141,077 and deferred outflows of resources of \$103,294 exceeded liabilities of \$3,978,780 by \$3,265,591 (i.e. net position). Of the total net position, \$931,601 was unrestricted and was available to support short-term operations. Total net position decreased from year end 2015 to 2016 in the amount of \$27,641.
- Total operating revenues increased by \$19,325 attributed mainly to an increase in customer usage. Total operating expenses increased by \$51,979 and was mainly attributed to increases in depreciation, pension liability and routine maintenance on the distribution system.
- The District was in compliance with all debt covenants required by borrowing agreements.

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

**Balance Sheet, Statement of Net Position**

Utility Plant decreased by \$273,065 net of depreciation, in 2016. (See diagram below.)

**Condensed Assets**

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
Utility Plant	\$ 5,314,034	\$ 5,587,099	\$ (273,065)
Current Assets	1,183,858	1,043,155	140,703
Other Non-current Assets	643,185	589,879	53,306
Total Assets	<u>\$ 7,141,077</u>	<u>\$ 7,220,133</u>	<u>\$ (79,056)</u>

At the end of December 31, 2016, the District had \$5,314,034 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	<u>2016</u>	<u>2015</u>
Land & Rights	\$ 226,229	\$ 226,229
Structures & Improvements	235,917	245,271
Distribution System	4,621,196	4,883,592
Wells	195,372	209,280
Machinery & Equipment	35,320	22,727
Totals	<u>\$ 5,314,034</u>	<u>\$ 5,587,099</u>

This year's major additions included:

- There were no major additions to the Distribution system only routine maintenance and repairs.

Deferred outflows of resources associated with the District's Employees' Pension Plan were \$103,294 and \$75,268 for the years ended December 31, 2016 and 2015, respectively. The deferred outflows of resources reflect contributions to the pension plan made by the District subsequent to the net pension liability measurement date, and other deferred outflows arising from the actuarial assumptions used by the pension plan associated with changes made in assumptions, differences between expected and actual experience, and changes in proportion and differences between employer Contributions and Proportionate Share of Contributions. Differences between projected and actual investment earnings on pension plan investments also gave rise to deferred outflows of resources.

Long-term debt decreased by \$28,400 attributable to normal principal payments made on outstanding debts and offset by the increase in the District's proportionate share of the net pension liability of the County Employees Retirement Systems.

**Condensed Liabilities**

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
Long Term Debt	\$ 3,784,148	\$ 3,812,548	\$ (28,400)
Current & Accrued Liabilities	194,632	189,621	5,011
Total Liabilities	<u>\$ 3,978,780</u>	<u>\$ 4,002,169</u>	<u>\$ (23,389)</u>

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

**Net Position**

At December 31, 2016, net position decreased \$27,641, as a result of contributions in aid of construction of \$16,636 offset by the District's loss from operations (before contributions) of \$44,277.

**Condensed Net Position**

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
Net Investment in Capital Assets	\$ 1,968,433	\$ 2,147,427	\$ (178,994)
Restricted for Debt Service	365,557	352,472	13,085
Unrestricted	931,601	793,333	138,268
Total	<u>\$ 3,265,591</u>	<u>\$ 3,293,232</u>	<u>\$ (27,641)</u>

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

Operating revenues for 2016 increased by \$19,325. Operating expenses increased by \$51,979 in 2016. Depreciation also increased.

**Condensed Statement of Revenues and Expenses**

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
Operating Revenues	\$ 1,101,963	\$ 1,082,638	\$ 19,325
Operating Expenses	1,016,614	964,635	51,979
Net-Operating Revenue	\$ 85,349	\$ 118,003	\$ (32,654)
Non-Operating Revenue (Expenses)	(129,626)	(134,041)	4,415
Income (Loss) Before Contributions	<u>\$ (44,277)</u>	<u>\$ (16,038)</u>	<u>\$ (28,239)</u>

**Statement of Cash Flows**

Cash from Operating Activities was down \$4,129 in 2016. Cash from capital and related financing activities in 2016 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>2016</u>	<u>2015</u>	<u>Difference</u>
Cash from Operating Activities	\$ 444,181	\$ 448,310	\$ (4,129)
Cash from Capital & Related Financing Activities	(266,584)	(272,505)	5,921
Cash from Investing Activities	(198,437)	1,576	(200,013)
Change in Cash	\$ (20,840)	\$ 177,381	\$ (198,221)
Cash Balance, Beginning of Year	830,390	653,009	177,381
Cash Balance, End of Year	<u>\$ 809,550</u>	<u>\$ 830,390</u>	<u>\$ (20,840)</u>

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2016**

**Debt**

At year-end, the District had \$3,348,086 in notes payable, bonds payable and accrued compensated absences compared to \$3,441,217 last year as shown below. The decrease is attributable to the payment of scheduled principal and interest payments.

	<u>2016</u>	<u>2015</u>
Notes Payable	\$ 396,101	\$ 420,772
Bonds Payable	2,949,500	3,018,900
Accrued Compensated Absences	2,485	1,545
Totals	<u>\$ 3,348,086</u>	<u>\$ 3,441,217</u>

**Net Pension Liability**

As indicated above, the District's adoption of GASB 68 and GASB 71 required that the District report its proportionate share of the net pension liability associated with its employees' pension plan (the County Employee Retirement System). The District's proportionate share was \$510,172 and \$442,034 for the years ended December 31, 2016 and 2015 and was based on measurement dates of June 30, 2016 and 2015, respectively.

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

The District will refinance seven of the nine outstanding Rural Development Revenue Bonds with Kentucky Rural Water Finance Corporation at a lower interest rate yielding an average annual cash flow savings of \$8,990.06.

The District will be upgrading its current manual meter reading system to a new automated cellular based reading system. The new cellular based reading system will allow for more accurate reporting of customer usage and also aid in the effort to keep water loss to a minimum. The District anticipates completing the upgrade in two phases. Phase one is expected to be completed in 2017 and will replace half of the District's customer meters with the new cellular read meter. The remaining half of the customer meters will be replaced in phase two of the project beginning in 2018.

The District anticipates no changes in customer rates but anticipates an increase in revenues associated with the implementation of the new meter reading system.

**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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash, Including Time Deposits	\$ 1,003,344	\$ 871,225
Accounts Receivable Trade (Net)	121,531	121,537
Accounts Receivable - Other	166	539
Interest Receivable	1,712	1,540
Inventory	43,104	35,592
Prepaid Expense	14,001	12,722
<b>Total Current Assets</b>	<u><b>\$ 1,183,858</b></u>	<u><b>\$ 1,043,155</b></u>
<b>Noncurrent Assets:</b>		
<b>Restricted Assets:</b>		
Cash, Including Time Deposits	\$ 643,026	\$ 589,722
Interest Receivable	159	157
Capital Assets (Net)	5,314,034	5,587,099
<b>Total Noncurrent Assets</b>	<u><b>\$ 5,957,219</b></u>	<u><b>\$ 6,176,978</b></u>
<b>Total Assets</b>	<u><b>\$ 7,141,077</b></u>	<u><b>\$ 7,220,133</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Attributable to Employee Pension Plan	<u><b>\$ 103,294</b></u>	<u><b>\$ 75,268</b></u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 11,691	\$ 11,885
Accrued Wages	4,645	3,600
Accrued Compensated Absences	2,485	1,545
Accrued Payroll Taxes/Employee Withholding	8,176	7,950
Utility Tax Payable	2,443	2,350
Sales Tax Payable	485	373
<b>Current Liabilities Payable from Restricted Assets:</b>		
Accrued Interest Payable	66,214	67,847
Revenue Bonds Payable	73,500	69,400
Note Payable - Kentucky Infrastructure Authority	24,993	24,671
<b>Total Current Liabilities</b>	<u><b>\$ 194,632</b></u>	<u><b>\$ 189,621</b></u>
<b>Noncurrent Liabilities:</b>		
Revenue Bonds Payable	\$ 2,876,000	\$ 2,949,500
Note Payable - Kentucky Infrastructure Authority	371,108	396,101
Escrow - Customer Construction Deposits	350	350
Net Pension Liability	510,172	442,034
<b>Noncurrent Liabilities Payable from Restricted Assets:</b>		
Customer Deposits Payable	26,518	24,563
<b>Total Noncurrent Liabilities</b>	<u><b>\$ 3,784,148</b></u>	<u><b>\$ 3,812,548</b></u>
<b>Total Liabilities</b>	<u><b>\$ 3,978,780</b></u>	<u><b>\$ 4,002,169</b></u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 1,968,433	\$ 2,147,427
Restricted for Debt Service	365,557	352,472
Unrestricted	931,601	793,333
<b>Total Net Position</b>	<u><b>\$ 3,265,591</b></u>	<u><b>\$ 3,293,232</b></u>

**GALLATIN COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
For the Years Ended December 31, 2016 and 2015

Operating Revenues:	2016	2015
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,039,911	\$ 1,019,666
Total Charges for Services	<u>\$ 1,039,911</u>	<u>\$ 1,019,666</u>
Other Charges and Miscellaneous:		
Billing Service Charges	\$ 33,220	\$ 33,237
Connection Fees	28,000	28,120
Miscellaneous	832	1,615
Total Other Charges and Miscellaneous	<u>\$ 62,052</u>	<u>\$ 62,972</u>
Total Operating Revenues	<u>\$ 1,101,963</u>	<u>\$ 1,082,638</u>
Operating Expenses:		
Bank Charges	\$ 1,952	\$ 1,447
Commissioner Fees	8,400	7,050
Contractual Service - Sampling	6,410	6,235
Dues	1,599	1,401
Employee Health Insurance and Benefits	105,604	100,382
Insurance	23,582	22,913
Labor	240,587	239,179
Maintenance of Mains	60,783	43,976
Office Supplies and Expense	23,699	28,448
Other Interest Expense	96	26
Payroll Taxes	16,752	16,713
Professional Services	13,640	12,187
Purchased Water	8,034	8,027
Regulatory Fees	2,122	2,078
Retirement Expense	82,759	62,021
Travel/Transportation Expense	17,377	16,177
Uniforms	4,900	4,327
Utilities - Office	13,054	13,350
Utilities - Pumping	62,309	61,372
Depreciation Expense	322,955	317,326
Total Operating Expenses	<u>\$ 1,016,614</u>	<u>\$ 964,635</u>
Operating Income (Loss)	<u>\$ 85,349</u>	<u>\$ 118,003</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 8,000	\$ 7,158
Interest Expense	(137,626)	(141,199)
Total Nonoperating Revenues (Expense)	<u>\$ (129,626)</u>	<u>\$ (134,041)</u>
Income (Loss) Before Contributions	\$ (44,277)	\$ (16,038)
Capital Contributions	<u>16,636</u>	<u>17,026</u>
Change in Net Position	\$ (27,641)	\$ 988
Net Position--Beginning of Year	<u>3,293,232</u>	<u>3,292,244</u>
Net Position--End of Year	<u>\$ 3,265,591</u>	<u>\$ 3,293,232</u>

**GALLATIN COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2016 and 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 1,104,502	\$ 1,088,552
Payments to Suppliers	(77,802)	(61,816)
Payments to Employees	(247,002)	(244,381)
Other Receipts (Payments)	(335,517)	(334,045)
Net Cash Provided (Used) by Operating Activities	<u>\$ 444,181</u>	<u>\$ 448,310</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	\$ 16,636	\$ 17,026
Purchases of Capital Assets	(49,890)	(56,321)
Principal Paid on Capital Debt	(94,071)	(90,453)
Interest Paid on Capital Debt	(139,259)	(142,757)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (266,584)</u>	<u>\$ (272,505)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	\$ (206,263)	\$ (4,763)
Interest on Investments	7,826	6,339
Net Cash Provided (Used) by Investing Activities	<u>\$ (198,437)</u>	<u>\$ 1,576</u>
 Net (Increase) in Cash and Cash Equivalents	 <u>\$ (20,840)</u>	 <u>\$ 177,381</u>
 Balances-Beginning of the Year	 <u>830,390</u>	 <u>653,009</u>
 Balances-End of the Year	 <u><u>\$ 809,550</u></u>	 <u><u>\$ 830,390</u></u>

	Balances Per December 31, 2016 Statement of Net Position	Balances Per December 31, 2016 Statement of Cash Flows
Cash	\$ 242,450	\$ 242,450
Time Deposits	760,894	-
Restricted Cash	567,100	567,100
Restricted Time Deposits	75,926	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,646,370</u>	<u>\$ 809,550</u>
	Balances Per December 31, 2015 Statement of Net Position	Balances Per December 31, 2015 Statement of Cash Flows
Cash	\$ 316,140	\$ 316,140
Time Deposits	555,085	-
Restricted Cash	514,250	514,250
Restricted Time Deposits	75,472	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,460,947</u>	<u>\$ 830,390</u>

(Continued)

**GALLATIN COUNTY WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 85,349	\$ 118,003
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	322,955	317,326
Pension Expense	40,112	20,735
Change in Assets and Liabilities:		
Receivables, Net	379	5,991
Inventories	(7,512)	(103)
Prepaid Expenses	(1,279)	(241)
Accounts and Other Payables	(194)	(9,469)
Accrued Expenses	2,416	(3,847)
Customer Meter Deposits Payable	<u>1,955</u>	<u>(85)</u>
Net Cash Provided by Operating Activities	<u>\$ 444,181</u>	<u>\$ 448,310</u>

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

At December 31, 2016 and 2015, Gallatin County Water District had no capital expenditures or other noncash investing activities outstanding.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**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 [measured as the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources] 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, 2016 and 2015**

**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.

**Pension:** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

**Deferred Outflows of Resources and Deferred Inflows of Resources:** Deferred Outflows of Resources and Deferred Inflows of Resources 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, 2016 and 2015. Tap-on fees of \$16,636 and \$17,026 were received by the District for the years ended December 31, 2016 and 2015.

**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, 2016 and 2015**

**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, 2016 and 2015.

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 2016 and 2015.

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 2016, \$27,204 was used to finance a new maintenance vehicle.

**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, 2016 and 2015, in accordance with the District's policy, \$1,643,124 and \$1,372,034 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 \$206,659 and \$250,493 at December 31, 2016 and 2015, 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, 2016 and 2015

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

**December 31, 2016**

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 239,204	\$ 242,360
Time and Savings Deposits	1,403,920	1,403,920
Total Deposits	<u>\$ 1,643,124</u>	<u>\$ 1,646,280</u>

**December 31, 2015**

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 318,211	\$ 316,049
Time and Savings Deposits	1,144,808	1,144,808
Total Deposits	<u>\$ 1,463,019</u>	<u>\$ 1,460,857</u>

**Reconciliation to Statement of Net Position:**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unrestricted Cash, Including Time Deposits	\$ 1,003,344	\$ 871,225
Restricted Cash, Including Time Deposits	643,026	589,722
Less Cash on Hand	(90)	(90)
	<u>\$ 1,646,280</u>	<u>\$ 1,460,857</u>

**NOTE 4 – RESTRICTED ASSETS**

**Restricted cash and investments consist of the following:**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Bond and Interest Sinking Account	\$ 141,808	\$ 142,034
Depreciation Account	252,386	237,296
Customer Deposits	33,100	30,974
Speedway Maintenance and Replacement Reserve	37,418	40,832
Short Lived Assets Account	<u>178,314</u>	<u>138,586</u>
Total	<u>\$ 643,026</u>	<u>\$ 589,722</u>

**Restricted receivables consist of the following:**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Interest Receivable	\$ 159	\$ 157
Total	<u>\$ 159</u>	<u>\$ 157</u>

**NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE**

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$8,137 and \$13,463 at December 31, 2016 and 2015, 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, 2016 and 2015

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2016 and 2015, was as follows:

	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016
Land & Land Rights	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	360,165	-	-	360,165
Distribution System	8,892,627	22,686	-	8,915,313
Wells	372,187	-	-	372,187
Machinery & Equipment	256,957	27,204	-	284,161
Totals at Historical Cost	<u>\$ 10,140,091</u>	<u>\$ 49,890</u>	<u>\$ -</u>	<u>\$ 10,189,981</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	114,894	9,354	-	124,248
Distribution System	4,009,035	285,082	-	4,294,117
Wells	162,907	13,908	-	176,815
Machinery & Equipment	234,230	14,611	-	248,841
Total Accumulated Depreciation	<u>\$ 4,552,992</u>	<u>\$ 322,955</u>	<u>\$ -</u>	<u>\$ 4,875,947</u>
Capital Assets, Net	<u>\$ 5,587,099</u>	<u>\$ (273,065)</u>	<u>\$ -</u>	<u>\$ 5,314,034</u>

	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015
Land & Land Rights	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	360,165	-	-	360,165
Distribution System	8,850,172	42,455	-	8,892,627
Wells	372,187	-	-	372,187
Machinery & Equipment	256,957	-	-	256,957
Totals at Historical Cost	<u>\$ 10,097,636</u>	<u>\$ 42,455</u>	<u>\$ -</u>	<u>\$ 10,140,091</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	105,539	9,355	-	114,894
Distribution System	3,725,160	283,875	-	4,009,035
Wells	148,998	13,909	-	162,907
Machinery & Equipment	224,043	10,187	-	234,230
Total Accumulated Depreciation	<u>\$ 4,235,666</u>	<u>\$ 317,326</u>	<u>\$ -</u>	<u>\$ 4,552,992</u>
Capital Assets, Net	<u>\$ 5,861,970</u>	<u>\$ (274,871)</u>	<u>\$ -</u>	<u>\$ 5,587,099</u>

Land and land rights are capital assets not being depreciated. Included under the District's plant assets were \$530,795 and \$515,615 of fully depreciated assets, at December 31, 2016 and 2015, respectively.

Depreciation expense aggregated \$322,955 and \$317,326 in 2016 and 2015, respectively.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015**

**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, 2016 and 2015, the long-term debt payable consisted of the following:

**Notes Payable:**

	<u>December 31, 2016</u>	<u>December 31, 2015</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. Final maturity is June 1, 2031.	\$ 396,101	\$ 420,772
<b>Total Notes Payable</b>	<b>\$ 396,101</b>	<b>\$ 420,772</b>
Current Portion	\$ 24,993	\$ 24,671
Noncurrent Portion	371,108	396,101
<b>Total Notes Payable</b>	<b>\$ 396,101</b>	<b>\$ 420,772</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.	\$ 153,000	\$ 162,000
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.	59,000	62,000
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.	269,000	280,000
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.	269,000	277,200

**GALLATIN COUNTY WATER DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2016 and 2015

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

**Bonds Payable: (Continued)**

	<u>December 31, 2016</u>	<u>December 31, 2015</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.	294,400	301,300
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.	89,900	92,000
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.	110,000	112,100
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.	1,254,000	1,274,000
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.	451,200	458,300
<b>Total Bonds Payable</b>	<b>\$ 2,949,500</b>	<b>\$ 3,018,900</b>
<b>Current Portion</b>	<b>\$ 73,500</b>	<b>\$ 69,400</b>
<b>Noncurrent Portion</b>	<b>2,876,000</b>	<b>2,949,500</b>
<b>Total Bonds Payable</b>	<b>\$ 2,949,500</b>	<b>\$ 3,018,900</b>

**Accrued Compensated Absences:**

<b>Current Accrued Compensated Absences</b>	<b>\$ 2,485</b>	<b>\$ 1,545</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, 2016 and 2015.

**December 31, 2016**

	<u>Balance at January 1, 2016</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance at December 31, 2016</u>	<u>Current Portion</u>
Notes Payable	\$ 420,772	\$ -	\$ 24,671	\$ 396,101	\$ 24,993
Bonds Payable	3,018,900	-	69,400	2,949,500	73,500
Accrued Compensated Absences	1,545	940	-	2,485	2,485
<b>Total Enterprise Fund Debt</b>	<b>\$ 3,441,217</b>	<b>\$ 940</b>	<b>\$ 94,071</b>	<b>\$ 3,348,086</b>	<b>\$ 100,978</b>

**GALLATIN COUNTY WATER DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2016 and 2015

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

**December 31, 2015**

	Balance at January 1, 2015	Additions	Repayments	Balance at December 31, 2015	Current Portion
Notes Payable	\$ 445,125	\$ -	\$ 24,353	\$ 420,772	\$ 24,671
Bonds Payable	3,085,000	-	66,100	3,018,900	69,400
Accrued Compensated Absences	734	811	-	1,545	1,545
Total Enterprise Fund Debt	<u>\$ 3,530,859</u>	<u>\$ 811</u>	<u>\$ 90,453</u>	<u>\$ 3,441,217</u>	<u>\$ 95,616</u>

The annual requirements for all long-term debt outstanding at December 31, 2016, are as follows:

Due	Bonds	Bond Interest	KIA Note	Note Interest	Note Servicing Fee	Total Payments Due
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	83,900	120,722	25,984	4,078	627	235,311
2021	88,300	116,843	26,322	3,739	575	235,779
2022-2026	509,400	518,869	136,852	13,454	2,070	1,180,645
2027-2031	569,600	392,451	130,982	4,294	661	1,097,988
2032-2036	529,000	265,702	-	-	-	794,702
2037-2041	476,600	154,254	-	-	-	630,854
2042-2046	461,000	58,051	-	-	-	519,051
	<u>\$ 2,949,500</u>	<u>\$ 2,010,848</u>	<u>\$ 396,101</u>	<u>\$ 39,787</u>	<u>\$ 6,122</u>	<u>\$ 5,402,358</u>

The annual requirements for all long-term debt outstanding at December 31, 2015 are as follows:

Due	Bonds	Bond Interest	KIA Note	Note Interest	Note Servicing Fee	Total Payments Due
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	83,900	120,722	25,984	4,078	627	235,311
2021-2025	485,200	541,328	135,090	15,216	2,341	1,179,175
2026-2030	567,100	418,561	144,132	6,173	950	1,136,916
2031-2035	551,200	290,471	14,934	97	14	856,716
2036-2040	482,300	175,079	-	-	-	657,379
2041-2045	449,500	76,663	-	-	-	526,163
2046	98,600	4,067	-	-	-	102,667
	<u>\$ 3,018,900</u>	<u>\$ 2,145,491</u>	<u>\$ 420,772</u>	<u>\$ 45,176</u>	<u>\$ 6,950</u>	<u>\$ 5,637,289</u>

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015**

**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. \$2,485 and \$1,545 of accrued compensated absences were payable at December 31, 2016 and December 31, 2015, respectively.

**NOTE 10 – INTEREST EXPENSE**

Interest expense incurred and charged to expense for the years ended December 31, 2016 and 2015 was \$137,722 and \$141,225, respectively. No interest was capitalized in 2016 or 2015.

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

	<u>2016</u>	<u>2015</u>
Restricted for Debt Service:		
RECD Revenue Bonds of 1988, 1993, 1996, 2000, 2002 and 2006		
Kentucky Infrastructure Authority Note		
Cash	\$ 431,612	\$ 420,162
Add: Accrued Interest Receivable	159	157
Less: Accrued Interest Payable	(66,214)	(67,847)
Total Restricted for Debt Service	<u>\$ 365,557</u>	<u>\$ 352,472</u>

**NOTE 12 – BAD DEBT EXPENSE**

Water revenue charges have been netted with estimated bad debt expense of \$6,708 and \$10,485 at December 31, 2016 and 2015, 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 coverage provided by Wright Specialty Insurance (property/general liability) and Kentucky Employer Mutual Insurance (KEMI) (Workers Compensation).

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015**

**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**

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.

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The most recent financial report, dated June 30, 2016, may be obtained from <https://kyret.ky.gov/Audit%20Reports/Audit%20Report%20June%2030,%202015-2016.pdf>. Additionally, the Kentucky Retirement System issues a publically available financial report that includes the Schedules of Employer Allocations and Pension amounts by Employer. The most recent report, dated June 30, 2016 may be obtained from <https://kyret.ky.gov/Audited%20Report%20Links/KRS%206-30-16%20Proportionate%20Share%20Audit%20Report.pdf>.

**Plan Description** – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers 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, COLAs 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 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 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 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

**Basis of Accounting** – CERS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

**Method Used to Value Investments** – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well as held during the fiscal year.

**Benefits provided** – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

**GALLATIN COUNTY WATER DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2016 and 2015**

**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
**(Continued)**

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

**Contributions** - For the fiscal years ended June 30, 2016 and 2015, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. The 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, 2016 and 2015, participating employers contributed 17.06% and 17.67%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2016 and 2015, were 17.06% and 17.67%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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 contribution rate is set annually by the Board based on an actuarial valuation. 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.

***Methods and Assumptions Used in Calculation of Actuarially Determined Contributions***

Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2015, the actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of June 30, 2015. Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2016, the actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all KRS Systems:

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015**

**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
(Continued)

*Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Continued)*

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	27 years (2016); 28 years (2015)
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including Inflation

There were no changes of benefit terms during the years ended June 30, 2016 and 2015.

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Cash Equivalent Long Term Expected Real Rate of Return</u>
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
<b>Total</b>	<b>100%</b>	

The projection of cash flows used to determine the discount rate assumed that the employer would contribute the actuarially determined contribution rate of projected compensation. The remaining amortization period of the unfunded actuarial accrued liability is 27 years. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the close payroll for existing members.

The actuarial valuation date upon which the total pension liability was based is June 30, 2015. An expected total pension liability is determined as of June 30, 2016, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, then applies the expected investment rate of return for the year. No update procedures were used to determine the total pension liability as of June 30, 2015.

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



**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015**

**NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
(Continued)

***Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Continued)***

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The long term assumed rate of return was based upon an analysis adopted by the Board of Trustees on December 3, 2015. The discount rate used to measure the total pension liability remained at 7.5%. The long term assumed investment rate of return and discount rate were based upon an analysis adopted by the Board of Trustees on December 3, 2015.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability.

The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

***Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2016 and 2015], calculated using the discount rate of 7.5%, as well as what CERS’ net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

<b>As of June 30, 2016</b>	<b>1% Decrease [6.5%]</b>	<b>Current Discount [7.5%]</b>	<b>1% Increase [8.5%]</b>
Net Pension Liability	\$ 6,135,625,606	\$ 4,923,618,237	\$ 3,884,686,628
District’s Proportionate Share	635,757	510,172	402,521
<b>As of June 30, 2015</b>	<b>1% Decrease [6.5%]</b>	<b>Current Discount [7.5%]</b>	<b>1% Increase [8.5%]</b>
Net Pension Liability	\$ 5,488,878,000	\$ 4,299,525,565	\$ 3,280,950,000
District’s Proportionate Share	564,312	442,034	337,314

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension***

At December 31, 2016, and 2015 the District reported a liability of \$510,172 and \$442,034, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2016, and 2015 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, and 2015 the District’s proportion was 0.01036 and 0.01028 percent, respectively, which is an increase of .00008% for the year ended June 30, 2016 and an increase of .00006% for the year ended June 30, 2015.

GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015

**NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
(Continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)*

The District’s total payroll for the fiscal year ended December 31, 2016 was \$252,805. Contributions to CERS were based on \$244,405 (eligible gross wages). The total employer contributions for the year ended December 31, 2016 were \$43,683.

The District’s total payroll for the fiscal year ended December 31, 2015, was \$248,111. Contributions to CERS were based on \$241,061 (eligible gross wages). The total employer pension contributions for the year ended December 31, 2015, were \$41,836.

All contributions were made as required during these years.

The District’s contribution for the County Employees’ Retirement System’s year(s) ended December 31, 2016, and 2015 was 0.01648 and 0.01028 percent, respectively, of the System’s total contribution requirements for all employers.

For the year ended December 31, 2016, and December 31, 2015, the District recognized pension expense of \$82,759 and \$62,021, respectively. At December 31, 2016 and 2015 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	December 31, 2016		December 31, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 2,227	\$ -	\$ 3,674	\$ -
Change in Assumptions	27,026	-	44,574	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	3,152	-	1,644	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	47,961	-	3,962	-
District Contributions Made Subsequent to the NPL Measurement Date	22,928	-	21,414	-
Total	<u>\$ 103,294</u>	<u>\$ -</u>	<u>\$ 75,268</u>	<u>\$ -</u>

\$22,928 and \$21,414 reported as deferred outflows of resources related to pensions arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2017 and 2016. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015**

**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
(Continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)*

		Increase (Decrease) to Pension Expense
Year Ended December 31, 2016:		
	2017	\$ 30,122
	2018	20,610
	2019	18,964
	2020	10,670
		<u>\$ 80,366</u>
		Increase (Decrease) to Pension Expense
Year Ended December 31, 2015:		
	2016	\$ 18,555
	2017	18,555
	2018	8,816
	2019	7,928
		<u>\$ 53,854</u>

***Payable to the Pension Plan***

At December 31, 2016 and 2015, the District reported a payable of \$6,509 and \$6,041, respectively for the outstanding amount contributions required for the years then ended. These amounts represent the employee withholding and employer match for the last month of the years then ended. The payable includes both pension and insurance contributions.

**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. 3.6% and 3.4% of total water revenue was received from Kentucky Speedway, LLC for the years ended December 31, 2016 and 2015, respectively.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2016 and 2015**

**NOTE 18 – COMMITMENTS AND CONTINGENCIES**

Under the health plan adopted by the District, employee deductibles for the year ended December 31, 2016, were \$3,000 (single plan) and \$6,000 (family plan). For the year ended December 31, 2015, employee deductibles were \$1,500 (single plan) and \$3,000 (family plan). Under the plan, the District will pay for eligible medical expenditures incurred by employees above the maximum employee costs determined by the District of \$500 (single plan) and \$1,000 (family plan). 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 \$25,686 and \$2,763 at December 31, 2016 and 2015, respectively. No accrual has been recorded in the financial statements due to the contingent nature of this liability. The policy was discontinued as of January 1, 2017.

**NOTE 19 – SUBSEQUENT EVENTS**

In March, 2017, the District entered into a contract to acquire Beacon AMA Cellular Read Meters at a cost of \$447,274. The District will finance the project through its own cash reserves. The net book value of the meters to be scrapped and replaced is approximately \$185,000 at December 31, 2016. The District anticipates the cellular read meters to be installed in two phases over a two year period.

In June, 2017, the District received PSC approval to refund its outstanding Waterworks Revenue Bonds (Rural Development) Series 1988 A, 1988 B, 1993, 1996, 2000 A, 2000 B, and 2002 through financing provided by the Kentucky Rural Water Finance Corporation. The sale of the Kentucky Rural Water Finance Corporation, Public Projects Revenue and Refunding Revenue Bonds, Series 2017, Gallatin County Water District, occurred on June 20, 2017, principal amount of \$1,180,000.

**NOTE 20 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 2015, the GASB issued Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for fiscal years beginning after June 15, 2017. This statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The District is evaluating the requirements of this statement.

**NOTE 21 – REISSUED FINANCIAL STATEMENTS**

During the analysis of the pension plan's audit report for the year ended June 30, 2016, it was discovered that the transactions associated with the pension plan as reported by Kentucky Retirement Systems in its reports for the fiscal years ended June 30, 2015 and 2014, had been misinterpreted and presented incorrectly in the District's audit report for the year ended December 31, 2015 [audit report dated June 8, 2016]. To correct this misinterpretation of the transactions associated with the initial presentation of net pension liability and the associated deferred outflows and inflows related to the District's pension plan, and the restatement of prior periods as required by GASB 68, the audit report on the District's comparative financial statements for the years ending December 31, 2015 and 2014 has been reissued concurrently with the audit report for the year ended December 31, 2016.

**GALLATIN COUNTY WATER DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
County Employees Retirement System

Last Three Fiscal Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.01036%	0.010281%	0.010202%
District's proportionate share of the net pension liability (asset)	\$ 510,172	\$ 442,034	\$331,000
District's covered-employee payroll	\$ 244,405	\$ 241,061	\$243,426
District's proportionate share of the net pension liability (asset) as a percentage of its of its covered- employee payroll	208.74%	183.37%	135.98%
Plan fiduciary net position as a percentage of the total pension liability	55.5%	59.97%	66.80%

\*Calculations based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and Pension Amounts by Employer for the fiscal years ended June 30, shown. District payroll is reported for its' covered calendar years ending December 31, 2014 through 2016.

GASB 68 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

There were no changes of benefit terms. However, the following changes in assumptions were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**GALLATIN COUNTY WATER DISTRICT**  
**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

**County Employees Retirement System**

**Fiscal Years Ended December 31**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contributions	\$ 43,683	\$ 41,836	\$ 44,467	\$ 43,228
Contributions in relation to the contractually required contributions	43,683	41,836	44,467	43,228
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 244,405	\$ 241,061	\$ 243,426	\$ 225,007
Contributions as a percentage of covered-employee payroll	17.87%	17.35%	18.27%	19.21%

The District's contributions above include the total contributions to the County Employees Retirement System. No allocation has been made between contributions to the CERS Pension Fund and the CERS Insurance Fund.

# RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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

To the 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, 2016, 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 June 23, 2017.

### 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (Items 2016-001 and 2016-002).

#### COMPLIANCE AND OTHER MATTERS

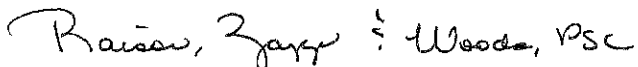
As part of obtaining reasonable assurance about whether Gallatin County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 is 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

June 23, 2017



**GALLATIN COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2016**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Gallatin County Water District were prepared in accordance with GAAP.
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 2016-001 and 2016-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Gallatin County Water District were disclosed during the audit.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**GOVERNMENT AUDITING STANDARDS**

**DEFICIENCIES IN INTERNAL CONTROL**

**2016-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES**

**CONDITION:**

District personnel have implemented sound oversight procedures over cash reconciliations and the monthly billing and expense disbursement processes. However, instances were observed where postings to the District's general ledger were not made to the appropriate account (expense vs. capital or liability accounts).

**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:**

One individual is responsible for posting the general ledger. Mispostings may occur and not be recognized.

**EFFECT:**

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

**RECOMMENDATION:**

Management should consider financial statement implications when posting to the general ledger to ensure accurate balances.

**RESPONSE:**

We concur with the recommendation. Management will enhance the monthly review and checking procedures associated with its financial information.

**GALLATIN COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES (Continued)  
For the Year Ended December 31, 2016**

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

**GOVERNMENT AUDITING STANDARDS (Continued)**

**DEFICIENCIES IN INTERNAL CONTROL (Continued)**

**2016-002 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, 2015 as 2015-002.

**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**