

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

At December 31, 2019 and 2018

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

Years Ended December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 required supplemental information listed in the Table of Contents on pages 3 through 6, and pages 36 through 39 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 May 12, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Gallatin County Water District's 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

May 12, 2020

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019**

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, 2019. 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.

FINANCIAL HIGHLIGHTS

The following are key financial highlights:

- Total assets at year-end of \$7,195,491 and deferred outflows of resources of \$189,275 exceeded liabilities of \$4,067,582 and deferred inflows of resources of \$92,262 by \$3,224,922 (i.e. net position). Of the total net position, \$428,067 was unrestricted and was available to support short-term operations. Total net position increased from year end 2018 to 2019 in the amount of \$37,493.
- Total Operating Revenues decreased by \$17,654 mainly attributed to decreases in billing services charges, connection fees and miscellaneous charges.
- Total Operating Expenses increased by \$31,599 mainly attributed to increases associated with retirement plan expenses, depreciation and cellular data.
- The District was in compliance with all debt covenants required by borrowing agreements.

Statement of Net Position

Utility Plant decreased by \$175,742 net of depreciation, in 2019. (See diagram below.)

Condensed Assets

| | <u>2019</u> | <u>2018</u> | <u>Difference</u> |
|--------------------------|---------------------|---------------------|--------------------|
| Utility Plant | \$ 5,369,151 | \$ 5,544,893 | \$ (175,742) |
| Current Assets | 1,171,950 | 1,155,850 | 16,100 |
| Other Non-current Assets | 654,390 | 508,930 | 145,460 |
| Total Net Assets | <u>\$ 7,195,491</u> | <u>\$ 7,209,673</u> | <u>\$ (14,182)</u> |

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019**

At the end of December 31, 2019, the District had \$5,369,151 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

| | <u>2019</u> | <u>2018</u> |
|---------------------------|---------------------|---------------------|
| Land & Rights | \$ 226,229 | \$ 226,229 |
| Structures & Improvements | 207,855 | 217,209 |
| Distribution System | 4,675,187 | 4,808,423 |
| Wells | 163,458 | 173,312 |
| Machinery & Equipment | 96,422 | 47,962 |
| Construction in Process | <u>-</u> | <u>71,758</u> |
| Totals | <u>\$ 5,369,151</u> | <u>\$ 5,544,893</u> |

This year's major additions included:

- The installation of by-pass meters on cross country lines to aid in leak detection.
- New equipment purchases include a Bob-Cat, trailer and new truck.

Deferred outflows of resources and deferred inflows of resources associated with the District's Employees' Pension Plan and other Employee Post Retirement Benefits (Insurance) Plan were \$189,275 and \$171,236 outflows and \$92,262 and \$86,090, inflows for the years ended December 31, 2019 and 2018, respectively. The deferred outflows of resources include contributions to the pension and OPEB plans made by the District subsequent to the net pension liability and net OPEB liability measurement date. Other deferred outflows and inflows are attributable to variances in the actual results verses the actuarial assumptions used by the plans, and therefore, reflect amounts arising from changes made in assumptions, cumulative changes in proportionate share, and differences between employee contributions and proportionate share of contributions. Cumulative differences between projected and actual investment earnings on plan investments also gave rise to deferred inflows of resources.

Total Liabilities decreased by \$39,898 attributable mainly to normal principal payments made on outstanding debts offset by the increase in net pension liabilities.

Condensed Liabilities

| | <u>2019</u> | <u>2018</u> | <u>Difference</u> |
|-------------------------------|---------------------|---------------------|--------------------|
| Long Term Debt | \$ 3,859,671 | \$ 3,894,913 | \$ (35,242) |
| Current & Accrued Liabilities | 207,911 | 212,567 | (4,656) |
| Total Liabilities | <u>\$ 4,067,582</u> | <u>\$ 4,107,480</u> | <u>\$ (39,898)</u> |

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019**

Net Position

At December 31, 2019, net position increased \$37,493 as a result of contributions in aid of construction of \$8,318 in addition the District income from operations (before contributions) of \$29,175. An increase of \$92,720 to net position restricted for debt service is attributable to transfers replenishing the District's short lived asset account and normal required depreciation reserve transfers.

Condensed Net Position

| | <u>2019</u> | <u>2018</u> | <u>Difference</u> |
|----------------------------------|---------------------|---------------------|-------------------|
| Net Investment in Capital Assets | \$ 2,296,981 | \$ 2,347,836 | \$ (50,855) |
| Restricted for Debt Service | 499,874 | 407,154 | 92,720 |
| Unrestricted | 428,067 | 432,439 | (4,372) |
| Total | <u>\$ 3,224,922</u> | <u>\$ 3,187,429</u> | <u>\$ 37,493</u> |

Statement of Revenues, Expenses and Changes in Net Position

Operating Revenues for 2019 decreased by \$17,654. Operating expenses increased by \$31,599 in 2019. Depreciation increased by \$13,907.

Condensed Statement of Revenues and Expenses

| | <u>2019</u> | <u>2018</u> | <u>Difference</u> |
|------------------------------------|------------------|------------------|--------------------|
| Operating Revenues | \$ 1,149,899 | \$ 1,167,553 | \$ (17,654) |
| Operating Expenses | 1,040,158 | 1,008,559 | 31,599 |
| Operating Revenue | \$ 109,741 | \$ 158,994 | \$ (49,253) |
| Non-Operating Revenue (Expenses) | (80,566) | (110,466) | 29,900 |
| Income (Loss) Before Contributions | <u>\$ 29,175</u> | <u>\$ 48,528</u> | <u>\$ (19,353)</u> |

Statement of Cash Flows

Cash from Operating Activities was down \$75,023 in 2019. Cash from capital and related financing activities in 2019 reflect the monies received and used to finance capital improvements and equipment. Overall cash increased \$139,691. Cash is consistent with expectations for the year.

Condensed Statement of Cash Flows

| | <u>2019</u> | <u>2018</u> | <u>Difference</u> |
|---|-------------------|-------------------|-------------------|
| Cash from Operating Activities | \$ 436,027 | \$ 511,050 | \$ (75,023) |
| Cash used by Capital & Related Financing Activities | (299,958) | (691,926) | 391,968 |
| Cash from Investing Activities | 3,622 | 2,943 | 679 |
| Change in Cash | \$ 139,691 | \$ (177,933) | \$ 317,624 |
| Cash Balance, Beginning of Year | 619,476 | 797,409 | (177,933) |
| Cash Balance, End of Year | <u>\$ 759,167</u> | <u>\$ 619,476</u> | <u>\$ 139,691</u> |

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019**

Debt

At year-end, the District had \$3,041,709 in notes payable, bonds payable and accrued compensated absences compared to \$3,152,485 last year as shown below. The decrease is attributable to the payment of scheduled principal and interest payments.

| | <u>2019</u> | <u>2018</u> |
|------------------------------|---------------------|---------------------|
| Notes Payable | \$ 320,140 | \$ 345,789 |
| Bonds Payable | 2,716,000 | 2,802,100 |
| Accrued Compensated Absences | 5,569 | 4,596 |
| Totals | <u>\$ 3,041,709</u> | <u>\$ 3,152,485</u> |

Net Pension Liability and Net OPEB Liability

The District's adoption of GASB 68 and GASB 75 requires that the District report its proportionate share of the net pension liability and net OPEB liability associated with its employees' pension plan and insurance plan (the County Employee Retirement System). The District's proportionate share of the net pension liability was \$710,830 and \$612,380 for the years ended December 31, 2019 and 2018 and was based on measurement dates of June 30, 2019 and 2018, respectively. The District's proportionate share of the net OPEB liability was \$169,945 and \$178,525 for years ending December 31, 2019 and December 31, 2018 and was based on measurement dates of June 30, 2019 and 2018, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Due to the COVID-19 Pandemic the District anticipates a decrease in revenues associated with late fees and service disconnections in the coming year. We may also see some slight increases in operating expenses associated with the cost of implementing new operating procedures to keep our employees and customers safe during this crisis.

The District will be conducting a case study in 2020 to determine the need for an increase in water rates.

On March 17, 2020, the District issued \$1,590,000 Kentucky Rural Water Finance Corporation Public Projects Refinancing and Improvement Revenue Bonds, Series 2020C to defease the Districts outstanding RDA Revenue Bonds; Series 2006A and 2006B then outstanding. This action will reduce total debt service by \$404,307 and will have an economic gain to the District of \$270,736 over the life of the issue.

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, 2019 and 2018**

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash, Including Time Deposits | \$ 976,669 | \$ 965,330 |
| Accounts Receivable Trade (Net) | 116,981 | 121,470 |
| Interest Receivable | 4,037 | 2,968 |
| Inventory | 56,907 | 48,745 |
| Prepaid Expense | 17,356 | 17,337 |
| Total Current Assets | <u>\$ 1,171,950</u> | <u>\$ 1,155,850</u> |
| Noncurrent Assets: | | |
| Restricted Assets: | | |
| Cash, Including Time Deposits | \$ 653,840 | \$ 508,261 |
| Interest Receivable | 550 | 669 |
| Capital Assets (Net) | 5,369,151 | 5,544,893 |
| Total Noncurrent Assets | <u>\$ 6,023,541</u> | <u>\$ 6,053,823</u> |
| Total Assets | <u>\$ 7,195,491</u> | <u>\$ 7,209,673</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Attributable to Employee Pension Plan | \$ 130,177 | \$ 129,054 |
| Attributable to Employee OPEB Plan | 59,098 | 42,272 |
| Total Deferred Outflows of Resources | <u>\$ 189,275</u> | <u>\$ 171,326</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 10,707 | \$ 15,519 |
| Retainage Payable | - | 8,235 |
| Accrued Wages | 7,258 | 5,360 |
| Accrued Compensated Absences | 5,569 | 4,596 |
| Accrued Payroll Taxes/Employee Withholding | 8,453 | 7,598 |
| Utility Tax Payable | 2,525 | 2,610 |
| Sales Tax Payable | 638 | 699 |
| Current Liabilities Payable from Restricted Assets: | | |
| Accrued Interest Payable | 54,377 | 56,201 |
| Revenue Bonds Payable | 92,400 | 86,100 |
| Note Payable - Kentucky Infrastructure Authority | 25,984 | 25,649 |
| Total Current Liabilities | <u>\$ 207,911</u> | <u>\$ 212,567</u> |
| Noncurrent Liabilities: | | |
| Revenue Bonds Payable (Including Premium \$36,030 for 2019 and \$40,933 for 2018) | \$ 2,659,630 | \$ 2,756,933 |
| Note Payable - Kentucky Infrastructure Authority | 294,156 | 320,140 |
| Escrow - Customer Construction Deposits | 1,152 | 1,152 |
| Net Pension Liability | 710,830 | 612,380 |
| Net OPEB Liability | 169,945 | 178,525 |
| Noncurrent Liabilities Payable from Restricted Assets: | | |
| Customer Deposits Payable | 23,958 | 25,783 |
| Total Noncurrent Liabilities | <u>\$ 3,859,671</u> | <u>\$ 3,894,913</u> |
| Total Liabilities | <u>\$ 4,067,582</u> | <u>\$ 4,107,480</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Attributable to Employee Pension Plan | \$ 30,550 | \$ 50,790 |
| Attributable to Employee OPEB Plan | 61,712 | 35,300 |
| Total Deferred Inflows of Resources | <u>\$ 92,262</u> | <u>\$ 86,090</u> |
| NET POSITION | | |
| Net Investment in Capital Assets | \$ 2,296,981 | \$ 2,347,836 |
| Restricted for Debt Service | 499,874 | 407,154 |
| Unrestricted | 428,067 | 432,439 |
| Total Net Position | <u>\$ 3,224,922</u> | <u>\$ 3,187,429</u> |

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2019 and 2018

| Operating Revenues: | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Charges for Services: | | |
| Water Charges (Net of Estimated Bad Debts) | \$ 1,097,367 | \$ 1,103,230 |
| Total Charges for Services | <u>\$ 1,097,367</u> | <u>\$ 1,103,230</u> |
| Other Charges and Miscellaneous: | | |
| Billing Service Charges | \$ 29,740 | \$ 33,747 |
| Connection Fees | 19,670 | 22,610 |
| Miscellaneous | 3,122 | 7,966 |
| Total Other Charges and Miscellaneous | <u>\$ 52,532</u> | <u>\$ 64,323</u> |
| Total Operating Revenues | <u>\$ 1,149,899</u> | <u>\$ 1,167,553</u> |
| Operating Expenses: | | |
| Bank Charges | \$ 2,087 | \$ 1,912 |
| Commissioner Fees | 15,200 | 6,450 |
| Contractual Service - Sampling | 7,344 | 7,989 |
| Data Usage - Cellular Read Meters | 22,318 | 16,496 |
| Dues | 2,381 | 1,968 |
| Employee Health Insurance and Benefits | 71,460 | 106,246 |
| Insurance | 26,706 | 25,268 |
| Labor | 258,005 | 251,167 |
| Maintenance of Mains | 52,202 | 55,690 |
| Office Supplies and Expense | 40,016 | 39,774 |
| Other Employee Post Retirement Benefits | 15,217 | 20,736 |
| Other Interest Expense | 651 | 335 |
| Payroll Taxes | 20,018 | 18,326 |
| Professional Services | 16,590 | 14,010 |
| Purchased Water | 7,857 | 7,701 |
| Regulatory Fees | 2,298 | 2,338 |
| Retirement Plan Expense | 120,928 | 94,437 |
| Travel/Transportation Expense | 21,376 | 21,260 |
| Uniforms | 6,676 | 5,506 |
| Office Utilities and Maintenance | 17,249 | 11,976 |
| Utilities - Pumping | 58,637 | 57,939 |
| Depreciation Expense | 254,942 | 241,035 |
| Total Operating Expenses | <u>\$ 1,040,158</u> | <u>\$ 1,008,559</u> |
| Operating Income (Loss) | <u>\$ 109,741</u> | <u>\$ 158,994</u> |
| Nonoperating Revenue (Expense): | | |
| Investment Income | \$ 21,799 | \$ 14,686 |
| Interest Expense | (108,670) | (111,653) |
| Gain (Loss) on Asset Disposition | 6,305 | (13,499) |
| Total Nonoperating Revenues (Expense) | <u>\$ (80,566)</u> | <u>\$ (110,466)</u> |
| Income (Loss) Before Contributions | \$ 29,175 | \$ 48,528 |
| Capital Contributions | <u>8,318</u> | <u>13,222</u> |
| Change in Net Position | \$ 37,493 | \$ 61,750 |
| Net Position - Beginning | <u>3,187,429</u> | <u>3,125,679</u> |
| Net Position | <u>\$ 3,224,922</u> | <u>\$ 3,187,429</u> |

**GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018**

| | <u>2019</u> | <u>2018</u> |
|---|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Customers | \$ 1,152,417 | \$ 1,176,744 |
| Payments to Suppliers | (73,052) | (28,486) |
| Payments to Employees | (261,484) | (255,779) |
| Other Receipts (Payments) | (381,854) | (381,429) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 436,027</u> | <u>\$ 511,050</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Contributions | \$ 8,318 | \$ 13,222 |
| Purchases of Capital Assets | (87,435) | (504,380) |
| Proceeds - Sale of Assets | 6,305 | - |
| Principal Paid on Capital Debt | (111,749) | (80,019) |
| Interest Paid on Capital Debt | (115,397) | (120,749) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>\$ (299,958)</u> | <u>\$ (691,926)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Investments | \$ (17,227) | \$ (314,454) |
| Cashed Investments | - | 304,055 |
| Interest on Investments | 20,849 | 13,342 |
| Net Cash Provided (Used) by Investing Activities | <u>\$ 3,622</u> | <u>\$ 2,943</u> |
| Net (Increase) in Cash and Cash Equivalents | \$ 139,691 | \$ (177,933) |
| Balances-Beginning of the Year | <u>619,476</u> | <u>797,409</u> |
| Balances-End of the Year | <u><u>\$ 759,167</u></u> | <u><u>\$ 619,476</u></u> |

| | | |
|---|---|---|
| | Balances Per December 31, 2019 Statement of Net Position | Balances Per December 31, 2019 Statement of Cash Flows |
| Cash | \$ 213,342 | \$ 213,342 |
| Time Deposits | 763,327 | - |
| Restricted Cash | 545,825 | 545,825 |
| Restricted Time Deposits | 108,015 | - |
| Total Cash and Cash Equivalents, End of Year | <u>\$ 1,630,509</u> | <u>\$ 759,167</u> |
| | Balances Per December 31, 2018 Statement of Net Position | Balances Per December 31, 2018 Statement of Cash Flows |
| Cash | \$ 217,101 | \$ 217,101 |
| Time Deposits | 748,229 | - |
| Restricted Cash | 402,375 | 402,375 |
| Restricted Time Deposits | 105,866 | - |
| Total Cash and Cash Equivalents, End of Year | <u>\$ 1,473,591</u> | <u>\$ 619,476</u> |

(Continued)

**GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018**

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating Income (Loss) | \$ 109,741 | \$ 158,994 |
| Adjustments to Reconcile Operating Income to Net Cash | | |
| Provided (Used) by Operating Activities: | | |
| Cash Flows Reported in Other Categories: | | |
| Depreciation Expense | 254,942 | 241,035 |
| Pension Expense | 77,087 | 56,643 |
| OPEB Expense | 1,006 | 7,880 |
| Change in Assets and Liabilities: | | |
| Receivables, Net | 4,489 | 8,604 |
| Inventories | (8,162) | 102,967 |
| Prepaid Expenses | (19) | (2,886) |
| Accounts and Other Payables | (4,812) | (65,176) |
| Accrued Expenses | 3,580 | 2,498 |
| Customer Meter Deposits Payable | (1,825) | 491 |
| Net Cash Provided by Operating Activities | <u>\$ 436,027</u> | <u>\$ 511,050</u> |

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2018, Gallatin County Water District had \$8,235 identified as retainage payable arising from capital acquisitions outstanding. At December 31, 2019, the District had no capital expenditures or other noncash investing activities outstanding.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018**

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. Restricted amounts are considered to be spent when an expense is incurred for the purpose of such classifications.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

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.

Post Employment Benefits Other Than Pensions

For purposes of measuring the net liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB 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.

Bond Premium: Original issue debt premiums are amortized as a component of interest expense over the life of the associated debt using the interest method. Unamortized premiums are reported as an addition to the face amount of the debt in the Statement of Net Position.

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, 2019 and 2018. Tap-on fees of \$8,318 and \$13,222 were received by the District for the years ended December 31, 2019 and 2018.

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.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

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

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.

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, 2019 and 2018.

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 2006 Bond Resolution requires a transfer of \$865 per month until \$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. Transfers were made as required in 2019 and 2018.

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 2019 and 2018, \$299,219 and \$11,055, respectively, was used to finance new electronic read meters and the District's tank maintenance project.

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, 2019 and 2018, in accordance with the District's policy, \$1,505,863 and \$1,501,496 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 \$180,144 and \$205,032 at December 31, 2019 and 2018, respectively as additional collateral. Thus the District had no deposits that were exposed to custodial credit risk.

December 31, 2019

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Total Carrying Value</u> |
|---------------------------|-------------------------------|---------------------------------|
| Demand Deposits | \$ 211,670 | \$ 213,162 |
| Time and Savings Deposits | 1,417,167 | 1,417,257 |
| Total Deposits | <u>\$ 1,628,837</u> | <u>\$ 1,630,419</u> |

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 3 – CASH AND INVESTMENTS (Continued)

December 31, 2018

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Total Carrying Value</u> |
|---------------------------|-------------------------------|---------------------------------|
| Demand Deposits | \$ 245,006 | \$ 217,011 |
| Time and Savings Deposits | 1,256,490 | 1,256,490 |
| Total Deposits | <u>\$ 1,501,496</u> | <u>\$ 1,473,501</u> |

Reconciliation to Statement of Net Position:

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Unrestricted Cash, Including Time Deposits | \$ 976,669 | \$ 965,330 |
| Restricted Cash, Including Time Deposits | 653,840 | 508,261 |
| Less Cash on Hand | (90) | (90) |
| | <u>\$ 1,630,419</u> | <u>\$ 1,473,501</u> |

NOTE 4 – RESTRICTED ASSETS

Restricted cash and investments consist of the following:

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| Bond and Interest Sinking Account - RD | \$ 67,505 | \$ 67,468 |
| Depreciation Account | 362,875 | 277,098 |
| Customer Deposits | 30,793 | 31,816 |
| Speedway Maintenance and Replacement Reserve | 37,458 | 37,157 |
| Short Lived Assets Account | 69,346 | 13,759 |
| Bond and Interest Sinking Account - KRWF | 85,863 | 80,963 |
| Total | <u>\$ 653,840</u> | <u>\$ 508,261</u> |

Restricted receivables consist of the following:

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|---------------------|--------------------------|--------------------------|
| Interest Receivable | \$ 550 | \$ 669 |
| Total | <u>\$ 550</u> | <u>\$ 669</u> |

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$10,295 and \$8,408 at December 31, 2019 and 2018, 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, 2019 and 2018**

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018, was as follows:

| | <u>Balance at January 1, 2019</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at December 31, 2019</u> |
|--------------------------------|---------------------------------------|--------------------|-------------------|---|
| Land & Land Rights | \$ 226,229 | \$ - | \$ - | \$ 226,229 |
| Organizational Fees | 31,926 | - | - | 31,926 |
| Structures & Improvements | 360,165 | - | - | 360,165 |
| Distribution System | 9,520,008 | 83,489 | - | 9,603,497 |
| Wells | 372,187 | - | - | 372,187 |
| Machinery & Equipment | 303,157 | 67,469 | 19,207 | 351,419 |
| Construction in Process | 71,758 | 11,647 | 83,405 | - |
| Totals at Historical Cost | <u>\$ 10,885,430</u> | <u>\$ 162,605</u> | <u>\$ 102,612</u> | <u>\$ 10,945,423</u> |
| Less: Accumulated Depreciation | | | | |
| Organizational Fees | \$ 31,926 | \$ - | \$ - | \$ 31,926 |
| Structures & Improvements | 142,956 | 9,354 | - | 152,310 |
| Distribution System | 4,711,585 | 216,725 | - | 4,928,310 |
| Wells | 198,875 | 9,854 | - | 208,729 |
| Machinery & Equipment | 255,195 | 19,009 | 19,207 | 254,997 |
| Total Accumulated Depreciation | <u>\$ 5,340,537</u> | <u>\$ 254,942</u> | <u>\$ 19,207</u> | <u>\$ 5,576,272</u> |
| Capital Assets, Net | <u>\$ 5,544,893</u> | <u>\$ (92,337)</u> | <u>\$ 83,405</u> | <u>\$ 5,369,151</u> |
| | <u>Balance at January 1, 2018</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at December 31, 2018</u> |
| Land & Land Rights | \$ 226,229 | \$ - | \$ - | \$ 226,229 |
| Organizational Fees | 31,926 | - | - | 31,926 |
| Structures & Improvements | 360,165 | - | - | 360,165 |
| Distribution System | 9,143,688 | 415,870 | 39,550 | 9,520,008 |
| Wells | 372,187 | - | - | 372,187 |
| Machinery & Equipment | 290,554 | 24,987 | 12,384 | 303,157 |
| Construction in Process | - | 208,167 | 136,409 | 71,758 |
| Totals at Historical Cost | <u>\$ 10,424,749</u> | <u>\$ 649,024</u> | <u>\$ 188,343</u> | <u>\$ 10,885,430</u> |
| Less: Accumulated Depreciation | | | | |
| Organizational Fees | \$ 31,926 | \$ - | \$ - | \$ 31,926 |
| Structures & Improvements | 133,602 | 9,354 | - | 142,956 |
| Distribution System | 4,529,828 | 207,808 | 26,051 | 4,711,585 |
| Wells | 189,020 | 9,855 | - | 198,875 |
| Machinery & Equipment | 253,561 | 14,018 | 12,384 | 255,195 |
| Total Accumulated Depreciation | <u>\$ 5,137,937</u> | <u>\$ 241,035</u> | <u>\$ 38,435</u> | <u>\$ 5,340,537</u> |
| Capital Assets, Net | <u>\$ 5,286,812</u> | <u>\$ 407,989</u> | <u>\$ 149,908</u> | <u>\$ 5,544,893</u> |

Land and land rights are capital assets not being depreciated. Included under the District's plant assets were \$1,731,322 and \$1,525,685 of fully depreciated assets, at December 31, 2019 and 2018, respectively.

Depreciation expense aggregated \$254,942 and \$241,035 in 2019 and 2018, respectively.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

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.

Escrow - Customer construction deposits represent amounts collected for hookups on future line extensions and/or hookup deposits held for services not installed.

NOTE 8 – LONG-TERM DEBT

On July 11, 2017, the Gallatin County Water District issued \$1,180,000 Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2017A to defease the \$1,199,200 of its 1988A, 1988B, 1993, 1996, 2000A, 2000B and 2002 bonds outstanding as of that date. The defeased bonds had interest rates as follows: 1988A, 1988B, 1993 and 2000B – 5%; 1996 and 2000A – 4.87%; 2002 – 4.625%. The 2017A bonds were issued at 3.2% to 4.2%. As a result of the defeasement, the District reduced its total debt service requirements by \$224,751, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$122,808. Final maturity on the 2017A issue is July 1, 2039. Underwriting expenses and other costs of issuance were \$40,239. A reoffering premium was received in the amount of \$49,007. The premium will be amortized as a reduction of interest expense over the life of the new issue.

As of December 31, 2019 and 2018, the long-term debt payable consisted of the following:

Notes Payable:

| | <u>December 31, 2019</u> | <u>December 31, 2018</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. | \$ 320,140 | \$ 345,789 |
| Total Notes Payable | <u>\$ 320,140</u> | <u>\$ 345,789</u> |
| Current Portion | \$ 25,984 | \$ 25,649 |
| Noncurrent Portion | 294,156 | 320,140 |
| Total Notes Payable | <u>\$ 320,140</u> | <u>\$ 345,789</u> |

Upon the occurrence of an event of default, the Kentucky Infrastructure Authority shall be entitled to the appointment of a receiver of the System and all receipts therefrom. The Kentucky Infrastructure Authority may pursue any available remedy to enforce payment obligations or to remedy any event of default. In the event that the District defaults, the defaulting party also agrees to pay the fees of such attorneys and other expenses incurred by the Kentucky Infrastructure Authority.

Bonds Payable:

| | | |
|--|--------------|--------------|
| 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. | \$ 1,188,000 | \$ 1,211,000 |
|--|--------------|--------------|

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 8 – LONG-TERM DEBT (Continued)

Bonds Payable: (Continued)

| | <u>December 31, 2019</u> | <u>December 31, 2018</u> |
|--|--------------------------|--------------------------|
| 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. | 428,000 | 436,100 |
| KRWFC Flexible Term Program Series 2017A, original issue amount of \$1,180,000, secured by water revenues. Interest is charged at the rate of 3.2% to 4.2% per annum. Final maturity is January 1, 2039. | <u>1,100,000</u> | <u>1,155,000</u> |
| Total Bonds Payable | <u>\$ 2,716,000</u> | <u>\$ 2,802,100</u> |
| Current Portion | \$ 92,400 | \$ 86,100 |
| Noncurrent Portion | <u>2,623,600</u> | <u>2,716,000</u> |
| Total Bonds Payable | <u>\$ 2,716,000</u> | <u>\$ 2,802,100</u> |

If there is any default in the payment of the principal of or interest on any of the bonds, then upon the filing of suit by any holder of said bonds, any court having jurisdiction of the action may appoint a receiver to administer the system on behalf of the District, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the system, and for the payment of current expenses, and to apply the revenues in conformity with the bond resolution and the provisions of the statute laws of Kentucky.

Accrued Compensated Absences:

| | | |
|--------------------------------------|-----------------|-----------------|
| Current Accrued Compensated Absences | <u>\$ 5,569</u> | <u>\$ 4,596</u> |
|--------------------------------------|-----------------|-----------------|

Bond Premium

Bond Premium associated with the Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2017A is to be amortized over the life of the bonds and reported as a component of interest expense using the interest method. The original premium received at the issuance of the 2017A Series, July 11, 2017, was \$49,007. Amortization for the year ended December 31, 2019 and 2018 was \$4,903 and \$5,382, respectively. The unamortized premium balance was \$36,030 and \$40,933 at December 31, 2019 and 2018, respectively.

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2019 and 2018.

December 31, 2019

| | <u>Balance at January 1, 2019</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at December 31, 2019</u> | <u>Current Portion</u> |
|------------------------------|---------------------------------------|------------------|-------------------|---|----------------------------|
| Notes Payable | \$ 345,789 | \$ - | \$ 25,649 | \$ 320,140 | \$ 25,984 |
| Bonds Payable | 2,802,100 | - | 86,100 | 2,716,000 | 92,400 |
| Accrued Compensated Absences | <u>4,596</u> | <u>19,265</u> | <u>18,292</u> | <u>5,569</u> | <u>5,569</u> |
| Total Long-Term Debt | <u>\$ 3,152,485</u> | <u>\$ 19,265</u> | <u>\$ 130,041</u> | <u>\$ 3,041,709</u> | <u>\$ 123,953</u> |

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt (Continued)

December 31, 2018

| | Balance at January 1, 2018 | Additions | Reductions | Balance at December 31, 2018 | Current Portion |
|------------------------------|-------------------------------|------------------|------------------|---------------------------------|--------------------|
| Notes Payable | \$ 371,108 | \$ - | \$ 25,319 | \$ 345,789 | \$ 25,649 |
| Bonds Payable | 2,856,800 | - | 54,700 | 2,802,100 | 86,100 |
| Accrued Compensated Absences | 3,427 | 19,014 | 17,845 | 4,596 | 4,596 |
| Total Long-Term Debt | <u>\$ 3,231,335</u> | <u>\$ 19,014</u> | <u>\$ 97,864</u> | <u>\$ 3,152,485</u> | <u>\$ 116,345</u> |

The annual requirements for all long-term debt outstanding at December 31, 2019, are as follows:

| Due | Bonds | Bond Interest | KIA Note | Note Interest | Note Servicing Fee | Total Payments Due |
|-----------|---------------------|---------------------|-------------------|------------------|-----------------------|-----------------------|
| 2020 | \$ 92,400 | \$ 106,132 | \$ 25,984 | \$ 4,078 | \$ 627 | \$ 229,221 |
| 2021 | 93,800 | 102,246 | 26,322 | 3,739 | 575 | 226,682 |
| 2022 | 100,200 | 98,198 | 26,666 | 3,395 | 522 | 228,981 |
| 2023 | 101,600 | 93,987 | 27,014 | 3,048 | 469 | 226,118 |
| 2024 | 103,100 | 89,717 | 27,366 | 2,695 | 415 | 223,293 |
| 2025-2029 | 584,500 | 378,481 | 142,277 | 8,029 | 1,235 | 1,114,522 |
| 2030-2034 | 547,700 | 271,334 | 44,511 | 580 | 89 | 864,214 |
| 2035-2039 | 482,300 | 173,361 | - | - | - | 655,661 |
| 2040-2044 | 417,400 | 84,282 | - | - | - | 501,682 |
| 2045-2046 | 193,000 | 8,048 | - | - | - | 201,048 |
| | <u>\$ 2,716,000</u> | <u>\$ 1,405,786</u> | <u>\$ 320,140</u> | <u>\$ 25,564</u> | <u>\$ 3,932</u> | <u>\$ 4,471,422</u> |

The annual requirements for all long-term debt outstanding at December 31, 2018 are as follows:

| Due | Bonds | Bond Interest | KIA Note | Note Interest | Note Servicing Fee | Total Payments Due |
|-----------|---------------------|---------------------|-------------------|------------------|-----------------------|-----------------------|
| 2019 | \$ 86,100 | \$ 109,856 | \$ 25,649 | \$ 4,412 | \$ 679 | \$ 226,696 |
| 2020 | 92,400 | 106,132 | 25,984 | 4,078 | 627 | 229,221 |
| 2021 | 93,800 | 102,246 | 26,322 | 3,739 | 575 | 226,682 |
| 2022 | 100,200 | 98,198 | 26,666 | 3,395 | 522 | 228,981 |
| 2023 | 101,600 | 93,987 | 27,014 | 3,048 | 469 | 226,118 |
| 2024-2028 | 580,100 | 401,677 | 140,445 | 9,861 | 1,517 | 1,133,600 |
| 2029-2033 | 550,600 | 291,692 | 73,709 | 1,443 | 223 | 917,667 |
| 2034-2038 | 488,400 | 192,367 | - | - | - | 680,767 |
| 2039-2043 | 425,600 | 101,616 | - | - | - | 527,216 |
| 2044-2046 | 283,300 | 17,872 | - | - | - | 301,172 |
| | <u>\$ 2,802,100</u> | <u>\$ 1,515,643</u> | <u>\$ 345,789</u> | <u>\$ 29,976</u> | <u>\$ 4,612</u> | <u>\$ 4,698,120</u> |

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 |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 9 – COMPENSATED ABSENCES (Continued)

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. \$5,569 and \$4,596 of accrued compensated absences were payable at December 31, 2019 and December 31, 2018, respectively.

NOTE 10 – INTEREST EXPENSE

Interest expense incurred and charged to expense, net of bond premium amortization, for the years ended December 31, 2019 and 2018 was \$109,321 and \$111,988, respectively. No interest was capitalized in 2019 or 2018.

NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Restricted for Debt Service: | | |
| RECD Revenue Bonds of 2006, Kentucky Rural Water | | |
| Flexible Term Finance Program Bonds and Kentucky | | |
| Infrastructure Authority Note | | |
| Cash | \$ 553,701 | \$ 462,686 |
| Add: Accrued Interest Receivable | 550 | 669 |
| Less: Accrued Interest Payable | (54,377) | (56,201) |
| Total Restricted for Debt Service | <u>\$ 499,874</u> | <u>\$ 407,154</u> |

Unrestricted net position was reduced by \$78,093 and \$64,523 for the years ended June 30, 2019 and 2018, respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability and Net OPEB Liability. The accounts affected were as follows:

| | <u>2019</u> | <u>2018</u> |
|---|-----------------|-----------------|
| Increase (Decrease) in Deferred Outflows of Resources | 17,949 | (54,603) |
| (Increase) Decrease in Deferred Inflows of Resources | (6,172) | (13,715) |
| (Increase) Decrease in Net Pension Liability | (98,450) | (20,845) |
| (Increase) Decrease in Net OPEB Liability | 8,580 | 24,640 |
| Net Decrease in Unrestricted Net Position | <u>(78,093)</u> | <u>(64,523)</u> |

NOTE 12 – BAD DEBT EXPENSE

Water revenue charges have been netted with estimated bad debt expense of \$9,628 and \$7,182 at December 31, 2019 and 2018, respectively.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

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 Allied World Assurance Company, LTD (property/general liability) and Kentucky Employer Mutual Insurance (KEMI) (Workers Compensation).

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN)

The Gallatin County Water District participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees.

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. Under the provisions of Kentucky Revised Statute ("KRS") Section 61.701, the KRS Board administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for an insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the pension funds administered by KRS, which includes CERS.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS's pension and insurance funds. Additionally, the Kentucky Retirement System issues publicly available financial reports that include the Schedules of Employer Allocations and Pension amounts, and the Schedules of Employer Allocations of Post Employment Benefits Other Than Pension amounts, by employer. The most recent financial reports, may be obtained on-line as follows:

- Kentucky Retirement Systems Audit Report – 2019
https://apps.auditor.ky.gov/Public/Audit_Reports/Archive/2018KRSfinancialaudit.pdf
- KRS Schedules of Employer Allocations & Pension Amount by Employer for the Fiscal Year Ended June 30, 2019
<https://kyret.ky.gov/Employers/GASB/Current%20Audited%20Reports/2019%20GASB%2068%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- KRS Schedules of Employer Allocations & OPEB Amounts by Employer for the Fiscal Year Ended June 30, 2019
<https://kyret.ky.gov/Employers/GASB/Current%20Audited%20Reports/2019%20GASB%2075%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- Kentucky CERS GASB 68 Accounting & Financial Reporting for Pensions as of June 30, 2019 (Actuarial Report)
<https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/2019%20GASB%2068%20Actuary%20Report%20CERS.pdf>
- Kentucky CERS GASB 75 Accounting & Financial Reporting for Postemployment Benefits Other Than Pensions as of June 30, 2019 (Actuarial Report)
<https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/2019%20GASB%2075%20Actuary%20Report%20CERS.pdf>

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/Investment Objectives – 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. Investment returns are recorded net of investment fees.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

- **Shorter-Term (5 years and less):** The returns of the particular asset classes of the managed funds of the Systems, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.
- **Medium-Term (5 to 30 years):** The returns of the particular asset classes of the managed funds of the Systems, measured on a rolling year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.
- **Longer-Term:** The total assets of the Systems should achieve a return of 6.25% for CERS pension and insurance plans. This is measured over 30 to 40 years which exceeds the actuarially required rate of return while also exceeding the return achieved by its total fund benchmark.

Target Asset Allocation – Pension and Insurance as of June 30, 2019 and 2018:

The long-term expected rates of return were determined by using a building block method in which best estimated ranges of expected future real rates of return were developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

The long-term expected real rate of return was 3.89% and 6.09% at June 30, 2019 and 2018.

| | Target Asset Allocation | | Long-Term Expected Rate of Return | |
|-----------------------|----------------------------|----------------|--------------------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Combined Equity | 52.50% | 35.00% | 2.60%-4.80% | 4.50% - 7.25% |
| Combined Fixed Income | 13.50% | 24.00% | 1.35% | 3.75% - 8.50% |
| Private Equity | 10.00% | 10.00% | 6.65% | 6.50% |
| Absolute Return | - | 10.00% | - | 5.00% |
| Real Return | 15.00% | 10.00% | 4.10% | 7.00% |
| Real Estate | 5.00% | 5.00% | 4.85% | 9.00% |
| Global Bonds | - | 4.00% | - | 3.00% |
| Opportunistic | 3.00% | - | 2.97% | - |
| Cash | 1.00% | 2.00% | 0.20% | 1.50% |
| | <u>100.00%</u> | <u>100.00%</u> | <u>3.89%</u> | <u>6.09%</u> |

- The investment portfolio for the Pension Funds reported a net return of 5.83% for the fiscal year 2019 compared to 8.57% return for fiscal year 2018. The investment portfolio for the Insurance Fund reported a net return of 5.67% for the fiscal year, which was lower than fiscal year 2018 net return of 9.05%. The investment return was slightly below the 6.25% assumed rate of return.

PENSION PLAN DESCRIPTION – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous and hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS along with hazardous duty positions of each participating county, city, or school board, 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

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011. The Gallatin County Water District participates in the non-hazardous plan.

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 or 25 years of service and any age |
| 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 |

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 for Tier 1 and Tier 2. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after earning a minimum months of service credit (120 months for Tier 2 and 180 months for Tier 3. 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.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member’s final rate of pay to 75% of the member’s average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member’s final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

There were no changes in benefit terms during the year ended June 30, 2019.

Contributions - Participating employers are 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, 2019 and 2018 participating non-hazardous employers contributed 21.48% and 19.18%, respectively, of each employee’s creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2019 and 2018 were 28.05% and 19.18%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

House Bill 362 passed during the 2018 legislative session caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Non-hazardous employer contributions for the year ended June 30, 2019, of 21.48% were allocated 16.22% to CERS's pension fund and 5.26% to CERS's (health insurance). Non-hazardous employer contributions for the year ended June 30, 2018, of 19.18% were allocated 14.48% to CERS's pension fund and 4.70% to CERS' OPEB (health insurance) fund, respectively.

For the fiscal years ended June 30, 2019 and 2018, plan members who began participating prior to September 1, 2008, were required to contribute 5% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. Plan members who began participating on, or after, September 1, 2008 and before January 1, 2014, were required to contribute a total of 6% non-hazardous, 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, for plan members who began participating on, or after, September 1, 2008, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

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 an additional 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. A member's account is credited with a 4% (non-hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

Interest is paid into the Tier 3 member's account. The account currently earns 4% interest credit on the member's account balance as of June 30th of the previous year. The member's account may be credited with additional interest if the system's five-year Geometric Average Net Investment Return (GANIR) exceeded 4%. If the member was actively employed and participating in the fiscal year, and if the systems' GANIR for the previous five years exceeds 4%, then the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30th of the previous year (Upside Sharing Interest). It is possible that one system in KRS may get an Upside Sharing Interest, while another may not.

The 1% of pay member contributions for Tier 1 and Tier 2 members to a 401(h) subaccount are considered an OPEB asset.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Pension Plan)

The Board adopted new actuarial assumptions after the June 30, 2018, valuation. These assumptions are documented in the report titled *Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ended June 30, 2018*.

Per the Kentucky Retirement System's 2019 Comprehensive Annual Financial Report, the actuarially determined contribution rates effective for fiscal year ending 2019 are calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are as follows:

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

| Item | CERS June 30, 2019 Non-Hazardous | CERS June 30, 2018 Non-Hazardous |
|--|--|--|
| Determined by the Actuarial Valuation as of: | June 30, 2017 | June 30, 2016 |
| Actuarial Cost Method: | Entry Age Normal | Entry Age Normal |
| Asset Valuation Method: | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized. | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized. |
| Amortization Method: | Level Percent of Pay | Level Percent of Pay |
| Amortization Period: | 26 Years, Closed | 27 Years, Closed |
| Investment Return: | 6.25% | 7.50% |
| Inflation: | 2.30% | 3.25% |
| Salary Increases: | 3.30% to 11.55%, varies by service | 3.05% |
| Payroll Growth: | 2.00% | 4.00%, average |
| Mortality: | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females) | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females) |

Actuarial Methods and Assumptions Used in Calculation of the Actuarially Determined Total Pension Liability and Net Pension Liability

For financial reporting, the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles.

For financial reporting, the actuarial valuation as of June 30, 2018 was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

The Board of Trustees adopted new actuarial assumptions since 2018. The actuarial assumptions are:

| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|---------------------------|----------------------------------|----------------------|
| Inflation | 2.30% | 2.30% |
| Salary Increases | 3.30% - 10.30% varies by service | 3.05% |
| Investment Rate of Return | 6.25% | 6.25% |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Actuarial Methods and Assumptions Used in Calculation of the Actuarially Determined Total Pension Liability and Net Pension Liability (Continued)

The mortality table(s) used in the determination of the total pension liability as of June 30, 2019 were as follows. The mortality table used for active members was a Pub-2010 General Mortality table for the Non-hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

The mortality tables(s) used in the determination the total pension liability at June 30, 2018 were as follows. The mortality table used for active members was 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 was the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for 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) was used for the period after disability retirement.

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous for the year ended June 30, 2019 assumes that the fund received the required employer contributions each future year, as determined by the current funding policy established in statute, as last amended by House Bill 362 (passed in 2018).

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous for the year ended June 30, 2018 assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability.

The discount rate does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the KRS Comprehensive Annual Financial Report.

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, 2019 and 2018 the District reported a liability of \$710,830 and \$612,380, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2019, and 2018 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, 2019, and 2018 the District's proportion was 0.010107 and 0.010055 percent, respectively, which is an increase of 0.000052% and 0.000051% for the years ended June 30, 2019 and June 30, 2018, respectively.

The District's total payroll for the calendar year ended December 31, 2019 was \$272,734. Contributions to the CERS were based on \$257,534 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2019 were \$44,276.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE 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 calendar year ended December 31, 2018 was \$259,479. Contributions to the CERS were based on \$253,029 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2018 were \$38,567.

All contributions were made as required.

The District's contribution for the County Employees' Retirement System's year(s) ended June 30, 2019, and 2018 was 0.010107 and 0.010055 percent, respectively, of the System's total contribution requirements for all employers.

For the years ended December 31, 2019, and December 31, 2018, the District recognized pension expense of \$120,928 and \$94,437, respectively. At December 31, 2019 and 2018 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

| | December 31, 2019 | | December 31, 2018 | |
|---|---|--|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference Between Expected and Actual Experience | \$ 18,150 | \$ 3,003 | \$ 19,974 | \$ 8,964 |
| Change in Assumptions | 71,944 | - | 59,847 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 3,122 | 2,443 | 368 | 6,007 |
| Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 13,645 | 25,104 | 28,476 | 35,819 |
| District Contributions Made Subsequent to the NPL Measurement Date | 23,316 | - | 20,389 | - |
| Total | \$ 130,177 | \$ 30,550 | \$ 129,054 | \$ 50,790 |

\$23,316 and \$20,389 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, 2020 and 2019, respectively. 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, 2019 and 2018**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE 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, 2019: | | |
| | 2020 | \$ 48,910 |
| | 2021 | 18,871 |
| | 2022 | 7,717 |
| | 2023 | 813 |
| | | <u>\$ 76,311</u> |
| | | |
| | | Increase (Decrease) to Pension Expense |
| Year Ended December 31, 2018: | | |
| | 2019 | \$ 46,138 |
| | 2020 | 22,450 |
| | 2021 | (7,425) |
| | 2022 | (3,288) |
| | | <u>\$ 57,875</u> |

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, 2019 and 2018], calculated using the discount rates of 6.25% and 6.25% for the years ended June 30, 2019 and 2018, respectively, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

| | 1% Decrease [5.25%] | Current Discount [6.25%] | 1% Increase [7.25%] |
|--------------------------------|------------------------|-----------------------------|------------------------|
| As of June 30, 2019 | | | |
| Net Pension Liability | \$ 8,796,343,903 | \$ 7,033,044,552 | \$ 5,563,351,626 |
| District's Proportionate Share | 889,046 | 710,830 | 562,288 |
| | | | |
| | 1% Decrease [5.25%] | Current Discount [6.25%] | 1% Increase [7.25%] |
| As of June 30, 2018 | | | |
| Net Pension Liability | \$ 7,667,062,949 | \$ 6,090,304,793 | \$ 4,769,257,576 |
| District's Proportionate Share | 770,923 | 612,380 | 479,549 |

The discount rate determination does not use a municipal bond rate.

Payable to the Pension Plan

At December 31, 2019 and 2018, the District reported a payable of \$5,252 and \$4,656 for the outstanding amount of contributions required for the years then ended. The amount represents the employee withholding and employer match for the last month of the years then ended.

OPEB PLAN

Insurance (OPEB) Plan Description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Insurance (OPEB) Plan Description (Continued)

Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. A portion of the insurance premiums are withheld from benefit payments for members including those of the CERS Non-Hazardous system.

Contributions

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

The amount of benefit paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum benefit are as follows:

| Portion Paid by Insurance Fund | |
|--------------------------------|-------------------------------|
| Years of Service | Paid by Insurance Fund (%) |
| 20+ years | 100.00% |
| 15-19+ years | 75.00% |
| 10-14+ years | 50.00% |
| 4-9+ years | 25.00% |
| Less than 4 years | 0.00% |

For the fiscal years ended June 30, 2019 and 2018, plan members who began on, or after, September 1, 2008 (classified in the Tier 2 or Tier 3 structure of benefits) were required to contribute 1% of their annual creditable compensation 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), which is considered an OPEB asset.

If a member terminates employment the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Participating employers are required to contribute at an actuarially determined rate as described previously.

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

Per the GASB Statement No. 75, *Report for Postemployment Benefits Other than Pensions* for the Kentucky County Employees Retirement System prepared as of June 30, 2019 and 2018, the actuarially determined contribution rates effective for fiscal year ending June 30, 2019 and 2018 are calculated based on the actuarial methods and assumptions as follows:

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

**NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)**

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

| Item | CERS June 30, 2019 Non-Hazardous | CERS June 30, 2018 Non-Hazardous |
|--|---|---|
| Determined by the Actuarial Valuation as of: | June 30, 2017 | June 30, 2016 |
| Experience Study | July 1, 2008 - June 30, 2013 | July 1, 2008 - June 30, 2013 |
| Actuarial Cost Method: | Entry Age Normal | Entry Age Normal |
| Asset Valuation Method: | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized. | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized. |
| Amortization Method: | Level Percent of Pay | Level Percent of Pay |
| Remaining Amortization Period: | 26 Years, Closed | 27 Years, Closed |
| Payroll Growth: | 2.00% | 4.00%, average |
| Investment Return: | 6.25% | 7.50% |
| Inflation: | 2.30% | 3.25% |
| Salary Increases: | 3.30% - 11.55% varies by service | 4.00%, average |
| Mortality: | 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 for 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. | 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 for 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. |
| <i>Healthcare Trend Rates:</i> | | |
| Pre-65 | Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. | Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years. |
| Post-65 | Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. | Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.0% over a period of 2 years. |
| Phase-In Provision | Board Certified Rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018. | - |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)**

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2019, were based on an actuarial valuation date of June 30, 2018. The total OPEB liability was rolled forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles.

For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children for all active members who die in the line of duty.

The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled *Kentucky Retirement Systems 2018 Actuarial Experience Study dated June 30, 2018*.

The actuarial assumption used are:

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

**NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)**

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and Net OPEB Liability (Continued)

| | CERS June 30, 2019 Non-hazardous | CERS June 30, 2018 Non-hazardous |
|-----------------------------------|--|---|
| Inflation | 2.30% | 2.30% |
| Payroll Growth Rate | 2.00% | 2.00% |
| Salary Increases | 3.30% - 10.30% varies by service | 3.05% average |
| Investment Rate of Return | 6.25% | 6.25% |
| Healthcare Trend Rates | | |
| Pre-65 | Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. | Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. |
| Post-65 | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. |
| Mortality | | |
| Pre-retirement | PUB-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). |
| Post-retirement (non-disabled) | System Specific Mortality Table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). |
| Post-retirement (disabled) | PUB-2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. | 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. |

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participating the in the System as of June 30, 2020. Since each employer's election was unknown at the time of the valuation, and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation. There were no other plan provision changes.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Discount Rate

The projection of cash flows used to determine the June 30, 2019 discount rate of 5.68% for CERS Non-hazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-year Municipal GO AA Index" as of June 28, 2019.

The projection of cash flows used to determine the June 30, 2018 discount rate of 5.85% for CERS Non-hazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018.

The fully-insured premiums KRS pays for the CERS Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. The liability associated with this implicit subsidy is included in the calculation of the total OPEB liability at June 30, 2018.

However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Kentucky Retirement System's CAFR.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan

At December 31, 2019 and 2018 the District reported a liability of \$169,945 and \$178,525, respectively.

The District's total payroll for the calendar year ended December 31, 2019 was \$272,734 contributions were based on \$257,534 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2019 were \$14,353.

The District's total payroll for the calendar year ended December 31, 2018 was \$259,479. Contributions were based on \$253,029 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2018 were \$12,856.

All contributions were made as required.

The allocation of the employers' proportionate share of the Net OPEB Liability and OPEB expense was determined using the employer's actual contributions for the fiscal year ending June 30, 2019.

The District's contribution for the County Employee's Retirement System's (Insurance Plan) for the years ended June 30, 2019 and 2018 was 0.010104 percent and 0.010055 percent, respectively, of the System's total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the years ended June 30, 2019 and 2018 was \$2,955 and \$2,131, respectively.

For the years ended December 31, 2019 and 2018, the District recognized expense of \$15,217 and \$20,736, respectively. At December 31, 2019 and 2018 the District reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan (Continued)

| | December 31, 2019 | | December 31, 2018 | |
|---|---|--|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference Between Expected and Actual Experience | \$ - | \$ 51,276 | \$ - | \$ 20,805 |
| Change in Assumptions | 50,288 | 336 | 35,654 | 412 |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 133 | 1,432 | - | 1,786 |
| Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments | 1,119 | 8,668 | - | 12,297 |
| District Contributions Made Subsequent to the Net OPEB Measurement Date | 7,558 | - | 6,618 | - |
| Total | <u>\$ 59,098</u> | <u>\$ 61,712</u> | <u>\$ 42,272</u> | <u>\$ 35,300</u> |

\$7,558 and \$6,618 reported as deferred outflows of resources related to OPEB arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the years ended December 31, 2020 and 2019 respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources and deferred inflows 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 OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

| | | Increase (Decrease) to OPEB Expense |
|--------------------------------------|------------|--|
| Year Ended December 31, 2019: | | |
| | 2020 | \$ (1,594) |
| | 2021 | (1,594) |
| | 2022 | 806 |
| | 2023 | (3,791) |
| | 2024 | (3,418) |
| | Thereafter | (581) |
| | | <u>\$ (10,172)</u> |
| | | Increase (Decrease) to OPEB Expense |
| Year Ended December 31, 2018: | | |
| | 2019 | \$ 281 |
| | 2020 | 281 |
| | 2021 | 281 |
| | 2022 | 2,670 |
| | 2023 | (1,905) |
| | Thereafter | (1,254) |
| | | <u>\$ 354</u> |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Payable to the OPEB Health Insurance Plan

At December 31, 2019 and 2018, the District reported a payable of \$1,703 and \$1,512, respectively for the outstanding amount of contributions required for the years then ended. This amount represents the employee withholding and employer match for the last month of the years then ended.

Sensitivity of the District's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Liability to Changes in the Discount Rate and Healthcare Trend Rate

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2019, calculated using the single discount rate of 5.68% as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

| As of June 30, 2019 | 1% Decrease [4.68%] | Current Discount [5.68%] | 1% Increase [6.68%] |
|--------------------------------|------------------------|-----------------------------|------------------------|
| Net OPEB Liability | \$ 2,253,127,713 | \$ 1,681,954,950 | \$ 1,211,345,586 |
| District's Proportionate Share | 227,656 | 169,945 | 122,394 |

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2019, calculated using the healthcare cost trend rate for the year ended June 30, 2019 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

| As of June 30, 2019 | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|--------------------------------|------------------|---------------------------------------|------------------|
| Net OPEB Liability | \$ 1,250,878,480 | \$ 1,681,954,950 | \$ 2,204,686,275 |
| District's Proportionate Share | 126,389 | 169,945 | 222,762 |

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2018, calculated using the single discount rates of 5.85% for the year ended June 30, 2018 as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

| As of June 30, 2018 | 1% Decrease [4.85%] | Current Discount [5.85%] | 1% Increase [6.85%] |
|--------------------------------|------------------------|-----------------------------|------------------------|
| Net OPEB Liability | \$ 2,306,064,041 | \$ 1,775,480,122 | \$ 1,323,519,582 |
| District's Proportionate Share | 231,875 | 178,525 | 133,080 |

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2018, calculated using the healthcare cost trend rate for the year ended June 30, 2018 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

| As of June 30, 2018 | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|--------------------------------|------------------|---------------------------------------|------------------|
| Net OPEB Liability | \$ 1,321,862,520 | \$ 1,775,480,122 | \$ 2,310,164,647 |
| District's Proportionate Share | 132,913 | 178,525 | 232,287 |

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

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. 3.7% and 3.1% of total water revenue was received from Kentucky Speedway, LLC for the years ended December 31, 2019 and 2018, respectively. Additionally, the District received 7.2% and 6.7% from the commercial enterprise, Mississippi Lime, Inc. for the years ended December 31, 2019 and 2018, respectively.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

During 2018, the District entered into a contract with Currin's Construction for painting the District's Ambrose, Eagle Tunnel and Mars Place tanks. The contract, after change orders was \$167,325. The project was substantially complete (98%) at December 31, 2018. \$8,235 retainage payable was recorded and included as a liability at December 31, 2018.

During the 2018 Kentucky Legislature Session, House Bill 362 passed which caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period July 1, 2018 to June 30, 2028. During the 2020 regular session, Senate Bill 249 froze the CERS employer rate phase-in for one year and House Bill 352 included provisions to keep the CERS rates the same as fiscal year 2020, effective July 1, 2020. The CERS Employer rate beginning July 1, 2020 and 2019 have been set at 24.06% and 24.06% respectively.

NOTE 19 – SUBSEQUENT EVENTS

Management has considered subsequent events through the date of this report May 8, 2020, for disclosure. No events were identified that would have impacted the financial statements for the year ended December 31, 2019. However, the following significant events occurred after December 31, 2019:

1. On March 17, 2020, the Gallatin County Water District issued \$1,590,000 Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2020C to defease the \$1,583,600 of its RECD Revenue Bonds of 2006, Series A and RECD Revenue Bonds of 2006 Series B, bonds outstanding as of that date. The defeased bonds had an interest rate of 4.125% for both issues. The 2020C bonds were issued at rates of 2.200% - 5.200%. A reoffering premium of \$53,516 was received at closing. As a result of the defeasement, the District reduced its total debt service requirements by \$404,307, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$270,736. Final maturity of the 2020C issue is February 1, 2047.
2. In March, 2020 significant steps were taken by federal and state governments to limit the effect of the COVID-19 virus. The immediate and long-term impact that such decisions may have on the financial position of the District is unknown at this time.

GALLATIN COUNTY WATER DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years Ended December 31**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| District's proportion of the net pension liability (asset) % | 0.010107% | 0.010055% | 0.010106% | 0.010362% | 0.010281% | 0.010202% |
| District's proportionate share of the net pension liability (asset) | \$ 710,830 | \$ 612,380 | \$ 591,535 | \$ 510,172 | \$ 442,034 | \$331,000 |
| District's covered payroll (calendar year) | \$ 257,534 | \$ 253,029 | \$245,249 | \$ 244,405 | \$ 241,061 | \$243,426 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 276.01% | 242.02% | 241.20% | 208.74% | 183.37% | 135.98% |
| Plan fiduciary net position as a percentage of the total pension liability | 50.45% | 53.54% | 53.3% | 55.5% | 59.97% | 62.60% |

Calculations of the District's proportion of the net pension liability (%) and proportionate share of the net pension liability (\$) are 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 2019.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

The Board of Trustees adopted new actuarial assumptions since June 30, 2018, as documented in the report titled *Kentucky Retirement Systems 2018 Actuarial Experience Study for the period ending June 30, 2018*. Actuarial Methods and Assumptions for Determining Net Pension Liability:

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---------------------------|--------------|-------------|-------------|-------------|-------------|-------------|
| Inflation | 2.30% | 2.30% | 2.30% | 3.25% | 3.25% | 3.50% |
| Salary Increases | 3.30%-10.30% | 3.05% | 3.05% | 4.00% | 4.00% | 4.50% |
| Investment Rate of Return | 6.25% | 6.25% | 6.25% | 7.50% | 7.50% | 7.75% |

The mortality table(s) used in the determination of the total pension liability as of June 30, 2019 were as follows. The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

In previous years 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 for 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.

The assumed rates of retirement, withdrawal, and disability were based on an actuarial valuation performed as of June 30, 2018.

GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (PENSION)
COUNTY EMPLOYEES RETIREMENT SYSTEM

Years Ended December 31

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Contractually required employer contributions | \$ 44,276 | \$ 38,567 | \$ 34,817 | \$ 30,355 | \$ 30,109 |
| Contributions in relation to the contractually required contributions | 44,276 | 38,567 | 34,817 | 30,355 | 30,109 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll (calendar year) | \$ 257,534 | \$ 253,029 | \$ 245,249 | \$ 244,405 | \$ 241,061 |
| Contributions as a percentage of covered payroll | 17.20% | 15.24% | 14.20% | 12.42% | 12.49% |

The District's contributions above include only contributions to the County Employees Retirement System Pension Fund. GASB 68 requires the District to present the above information for the CERS pension for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

GALLATIN COUNTY WATER DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Years Ended December 31

| | 2019 | 2018 | 2017 |
|---|-------------|-------------|-------------|
| District's proportion of the net OPEB liability (asset) % | 0.010104% | 0.010055% | 0.010106% |
| District's proportionate share of the net OPEB liability (asset) | \$ 169,945 | \$ 178,525 | \$203,165 |
| District's covered payroll (Calendar Year) | \$ 257,534 | \$ 253,029 | \$245,249 |
| District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll | 65.60% | 70.55% | 82.55% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 60.44% | 57.62% | 52.4% |

Calculations of the District's proportion of the net OPEB liability (%) and proportionate share of the net OPEB liability (\$) are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and OPEB Amounts by Employer for the fiscal years ended June 30, shown.

GASB 75 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.

District covered payroll is reported for its calendar year.

The Board of Trustees adopted new actuarial assumptions since June 30, 2018, as documented in the report titled, *Kentucky Retirement Systems 2018 Actuarial Experience Study for the period ending June 30, 2018*.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

Actuarial Methods and Assumptions for Determining Net OPEB Liability:

| | 2019 | 2018 | 2017 |
|---|--|---|---|
| Payroll Growth Rate | 2.0% | 2.0% | 2.0% |
| Salary Increases | 3.30%-10.30% varies by service | 3.05% Average | 3.05% Average |
| Investment Rate of Return | 6.25% | 6.25% | 6.25% |
| Inflation | 2.3% | 2.3% | 2.3% |
| Healthcare Trend Rates: Pre-65 | Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. | Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. | Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. |
| Healthcare Trend Rates: Post-65 | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. | Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. |
| Mortality: Pre-Retirement | PUB-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). |
| Post-Retirement | System Specific Mortality Table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement Scale using a base year of 2019. | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). | RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). |
| Post-Retirement (disabled) | PUB 2010 Disabled Mortality Table, with a 4-year set forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 is used for the period after disability. | 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. | 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. |

GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS (OPEB)
COUNTY EMPLOYEES RETIREMENT SYSTEM

Years Ended December 31

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Contractually required employer contributions | \$ 14,353 | \$ 12,856 | \$ 11,605 | \$ 13,328 | \$ 11,727 |
| Contributions in relation to the contractually required contributions | 14,353 | 12,856 | 11,605 | 13,328 | 11,727 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll | \$ 257,534 | \$ 253,029 | \$ 245,249 | \$ 244,405 | \$ 241,061 |
| Contributions as a percentage of covered payroll | 5.57% | 5.10% | 4.73% | 5.45% | 4.86% |

The District's contributions above include only the contributions to the County Employees Retirement System Insurance Fund.

GASB 75 requires the District to present the above information for the CERS OPEB Plan for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

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 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, 2019, 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 May 12, 2020.

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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Items 2019-001 and 2019-002 that we consider to be material weaknesses.

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, PSC

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

May 12, 2020

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2019**

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 2019-001 and 2019-002 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

2019-001 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 due to the size of the District's administrative staff mispostings may occur and not be corrected. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2018 as 2018-001.

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:

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.

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

We concur with the recommendation. Management will continue their efforts in the review of underlying transactions and checking procedures associated with its financial information.

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2019**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

**2019-002 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, 2018 as 2018-002.

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.

VIEWS of RESPONSIBLE OFFICIALS and PLANNED CORRECTIVE ACTIONS:

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