GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

Audited Financial Statements

For The Year Ended December 31, 2016

PEERCY AND GRAY, PSC
Certified Public Accountants
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TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Garrison-Quincy-KY-O-Heights Water District
Garrison, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Garrison-Quincy-KY-O-Heights Water District, as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions 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. 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 auditors' 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 opinions.

To the Commissioners
Garrison-Quincy-KY-O-Heights Water District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Garrison-Quincy-KY-O-Heights Water District as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its' compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Peercy and Gray, PSC

Peercy and Gray, PSC
November 21, 2018

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016

Assets	
Current Assets	
Cash - Unrestricted	$ 37,862
Cash - Restricted	205,286
Accounts Receivable (Net)	72,937
Unbilled Receivables	28,337
Inventory	29,553
Prepaid Expenses	6,112
Total Current Assets	380,087
Property, Plant and Equipment	
Land & Easements - Water Distribution	261,788
Land & Easements - Sewer Processing	50,000
Buildings - Water Distribution	380,866
Buildings - Sewer Processing	1,150,000
Wells, Springs, & Reservoirs	1,001,151
Pumping Equipment	167,282
Transmission & Distribution	4,167,483
Water Treatment	542,810
Sewer Lines	4,100,000
Vehicles & Heavy Equipment	113,229
Office, Tools, & Other Equipment	30,155
Accumulated Depreciation	(2,595,077)
Total Property and Equipment - Net of Accumulated Depreciation	9,369,687
Total Assets	$ 9,749,774
Deferred Outflows of Resources	
Deferred Pension	89,548
Total Deferred Outflows of Resources	$ 89,548

The accompanying notes are an integral part of these financial statements.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2016

Liabilities & Net Position	
Current Liabilities	
Accrued Interest	$ 25,547
Taxes Payable	1,632
Accrued Wages & Benefits	3,277
Deferred Compensation	630
Accounts Payable - Payroll Taxes	817
Compensated Absences	16,272
Accounts Payable	17,571
Accounts Payable - Retirement	3,807
Bonds Payable	37,300
Loans Payable	28,673
Total Current Liabilities	135,526
Long-term Liabilities	
Bonds Payable	1,378,100
Loans Payable	587,618
Net Pension Liability	403,216
Customer Deposits	9,181
Total Long-term Liabilities	2,378,115
Total Liabilities	$ 2,513,641
Deferred Inflows of Resources	
Deferred Revenue	2,390
Total Deferred Inflows of Resources	$ 2,390
Net Position	
Net Investment in Capital Assets	7,337,996
Restricted:	
Capital Equipment Reserve	27,904
Debt Service Reserve	91,659
Depreciation Reserve	76,542
Unrestricted	(210,810)
Total Net Position	$ 7,323,291
Total Liabilities & Net Position	$ 9,839,322

The accompanying notes are an integral part of these financial statements.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

Operating Revenues	
Water Billing	$ 548,198
Sewer Billing	154,140
Miscellaneous	22,790
Net Operating Revenues	725,128
Operating Expenses	
Water Expenses	
Advertising and Printing	203
Bad Debt Expense	12,670
Bank Charges	396
Chemicals and Salt	5,251
Continuing Education	1,880
Depreciation	110,253
Dues and Subscriptions	2,384
Health Insurance	19,800
Materials and Supplies	41,317
Miscellaneous	4,535
Office Supplies	8,109
Outside Services	3,235
Other Utilities	1,000
Payroll Taxes	16,746
Phone	3,825
Postage	6,809
Professional Fees	2,310
Insurance	11,023
Repairs and Maintenance	9,401
Retirement	64,238
Salaries	180,487
Supplies and Testing	2,713
Electric	29,254
Vehicle Expense	4,844
Water Purchased	71,762
Worker's Compensation	4,650
Total Water Expense	619,095

The accompanying notes are an integral part of these financial statements.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

Operating Expenses (Continued)	
Sewer Expenses	
Electric	$ 19,950
Material and Supplies	15,937
Phone	1,860
Depreciation	77,665
Postage	890
Testing	9,016
Miscellaneous	693
Repairs and Maintenance	2,727
Truck Expense	462
Salaries and Wages	55,619
Total Sewer Expense	184,819
Total Operating Expenses	803,914
Net Operating Income (Loss)	(78,786)
Non Operating Revenues (Expenses)	
Interest Expense	(55,184)
Debt Forgiveness Revenue	98,480
Bond Interest Reimbursement	2,686
Interest Income	222
Total Non Operating Revenues (Expenses)	46,204
Change In Net Position	(32,582)
Net Position - Beginning	7,355,873
Total Net Position- Ending	$ 7,323,291

The accompanying notes are an integral part of these financial statements.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash Flows From Operating Activities	
Payments From Customers	$ 716,675
Miscellaneous Income	101,388
Payment to Vendors	(344,807)
Payments for Payroll and Related Expenses	(301,976)
Net Cash Provided by Operating Activities	171,280
Cash Flows From Capital And Related Financing Activities	
Purchase of Property, Plant and Equipment	(734,401)
Net Cash Used by Capital and Related Financing Activities	(734,401)
Financing Activities	
Security Deposits Received - Net	(932)
Loan Proceeds	393,921
Loan Forgiveness	(98,480)
Principal Payments on Long-Term Debt	(36,200)
Net Cash Provided by Financing Activities	258,309
Increase In Cash	(304,812)
Cash At Beginning Of Year	547,960
Cash At End Of Year	$ 243,148

The accompanying notes are an integral part of these financial statements.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

Reconciliation Of Change in Net Position To Net Cash Provided By Operating Activities

Change in Net Position	$ (32,582)
Adjustments to Reconcile Change in Net Position to	
Net Cash Provided by Operating Activities:	
Depreciation	187,918
Bad Debts	12,670
(Increase) Decrease In:	
Accounts Receivable	(19,013)
Unbilled Receivables	(1,680)
Inventory	(5,996)
Prepaid Expenses	894
Increase (Decrease) In:	
Accrued Interest	(358)
Accounts Payable	(5,156)
Deferred Compensation	630
Net Pension Liability	30,103
Unearned Revenue	(430)
Accrued Wages and Benefits	92
Accrued Payroll Taxes	98
Accounts Payable Deferred Compensation	80
Accounts Payable Retirement	(195)
Compensated Absences	4,205
Net Cash Provided by Operating Activities	$ 171,280

The accompanying notes are an integral part of these financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Garrison-Quincy-KY-O-Heights Water District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Organization & Activity

The District was created in accordance with Chapter 74 of the Kentucky Revised Statutes in 1966. The purpose of the District is to provide water and wastewater services to residents in rural Lewis County.

Financial Reporting Entity

The District complies with GASB Statements No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations Are Component Units." These Statements establish standards for defining and reporting on the financial reporting entity. They define component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not considered a component unit of any other governmental unit for financial reporting purposes.

The District considered all potential component units in determining what organizations should be included in its financial statements. Based on an evaluation of the established criteria, management determined that there were no component units to include in the District's financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements provide information about the District's business-type activities. The financial statements for the business-type activities are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe which transaction and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting", refers to when transactions or events are recorded regardless of measurement focus applied.

Because of the "businesslike" characteristics of the District's operations, the accompanying financial statements report uses the economic resources measurement focus and the accrual basis of accounting. The accounting objective of the "economic resources" measurement focus is the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District utilizes an enterprise fund to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business or where the Board has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

As the means for delivering services to its customers, the District utilizes an office building, infrastructure, office equipment, equipment and vehicles. To provide the resources that are necessary to pay for water and wastewater services and the related support functions, the District charges its customers monthly user fees, which are based on the specific level of services that they are receiving. Because the operations of the District closely mirror those of a typical, commercial company, its accounting records reflect a similar approach for measuring its business activity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the preparation of the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governmental entities also have the option of following subsequent private-sector guidance in accounting and reporting on its operations, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance.

The District’s various bond resolutions or ordinances require the establishment of certain accounts, which are referred to as “funds”. These required accounts are maintained as part of accounting records of the Water and Sewer Fund. They include the Sinking Fund (Debt Service), Revenue Fund, and Depreciation Reserve Fund (Repairs and Maintenance). These are not “funds” as the term is used in generally accepted accounting principles, but are separate “accounts” used to delineate the accounting and reporting for bond related money and repayment security requirements. The balances and activity that occur in these various accounts represent specific segments of the Water and Sewer Utility enterprise fund as reported in the District’s financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The enterprise fund used by the District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgeting

The District prepares annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the year. Project-length budgets, which generally encompass more than one year, are also prepared for major construction projects. Both the operating and project-length expenditure plans are prepared on the cash basis of accounting, which significantly differs from the accrual basis of accounting that the District uses in the preparation of its financial statements.

These managerial budgets that are prepared for operations each year or at the inception of a major construction project are not adopted by the Board as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been practiced for utility accounts receivables. The District estimates that allowance based on the following percentages of arrears: Current bills due: 1%, thirty days past due: 30% of accounts receivable, sixty days past due: 60% of accounts receivable, and ninety days or more past due: 90% of accounts receivable. Bills are due by the tenth of each month. It is the policy of the District to shut off water service one month after nonpayment. Customer deposits held are applied to outstanding bills. At December 31, 2016, the allowance for doubtful account was $68,726.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts and Unbilled Receivables

Account receivables are stated at face amount. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on December 20, 2016 was for customer usage from approximately November 15 through December 15, 2016. The entire amount is considered accounts receivable as of December 31, 2016. The billing mailed on January 24, 2016 was for usage from approximately December 15, 2016 through January 15, 2016. Fifty percent of this billing is considered unbilled receivables at December 31, 2016.

Deposits and Investments

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing account of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Property, Plant, and Equipment

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water distribution systems, sewer collection systems, and similar items) are reported as a component of noncurrent assets in the basic financial statement. Capital assets are generally defined by the District as being those assets with an initial individual cost of more than $2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Property, Plant, and Equipment (Continued)

Depreciation is charged as an expense against operations. Capital assets of the authority are depreciated using the straight-line method over their estimated useful lives in years.

The depreciation expense provided on the proprietary fund assets during the period ended December 31, 2016 is $187,918.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalized Interest On Indebtedness

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed. The total interest expense incurred by the District during the current year was $55,184. During the year, there was no interest that was capitalized and included as part of the cost of capital assets.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of cash on hand, demand and savings deposits, and certificates of deposit.

Inventory and Prepaid Items

Included in inventory are materials and supplies to support maintenance work on the District's infrastructure. All inventories maintained by the District are valued at cost.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

Restricted Net Assets

Some of the District's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets, whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements, or enabling legislation.

The "capital equipment reserve" is funds required to be maintained to service and upgrade equipment.

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. The "debt service reserve' accounts are used to segregate resources accumulated for debt service payments over the next twelve months.

The "depreciation reserve" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals, replacements, and extensions.

Federal Income Tax

The District is exempt from federal income tax as a governmental entity and no information return is required.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

NOTE 2. RESTRICTIONS ON CASH

Restricted Cash Accounts

A. Customer Deposit Account

The District is required to maintain special deposit accounts for customer deposits.

B. Capital Equipment Account

The Capital Equipment Account is being maintained for the purposes of purchasing and maintaining equipment. The District deposits $2,000 per month into the account.

C. Debt Service Reserve Accounts

Deposits into Bond and Interest Sinking Fund Account are required to be made monthly in order to accumulate funds for payment of bond principle and interest. The KIA (Kentucky Infrastructure Authority) Loan Account is being maintained for the purposes of accounting for principal and interest payments on the KIA Loan.

D. Depreciation Reserve

The Depreciation Reserve Accounts are being maintained as required in various bond documents. The District was required to deposit $280 per month into the accounts. The District had a total of $76,542 in these accounts for the purpose of maintaining the water system.

NOTE 2. RESTRICTIONS ON CASH (CONTINUED)

The following is a listing of restricted cash accounts of the District:

Customer Deposit Account	$ 9,181
Capital Equipment Account	27,904
Debt Service Accounts:	
Bond Sinking Fund Account	67,657
KIA Account Loan Account	24,002
Depreciation Reserve:	
Depreciation Account	14,874
Sewer Depreciation Account	16,884
Certificates of Deposit -	
Replacement Reserves	23,000
Depreciation Fund	21,784
Total Restricted Cash Accounts	$ 205,286

NOTE 3. CASH AND INVESTMENTS

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2016, these requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy of custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2016, all deposits were covered by FDIC insurance.

NOTE 4. PROPERTY, PLANT, AND EQUIPMENT

The District's major classes of utility capital assets and accumulated depreciation are shown below:

	Reporting Entity			
Primary Government:	Beginning Balance	Increases	Decreases	Ending Balance
Proprietary Activities:				
Capital Assets Not Being Depreciated:				
Land & Easements - Water Distribution	$ 261,788	$	$	$ 261,788
Land & Easements - Sewer Processing	50,000			50,000
Construction In Progress	87,320		(87,320)	
Total Capital Assets Not Being Depreciated	399,108		(87,320)	311,788
Capital Assets, Being Depreciated:				
Buildings - Water Distribution	380,866			380,866
Buildings - Sewer Processing	1,150,000			1,150,000
Wells, Springs, & Reservoirs	179,430	821,721		1,001,151
Pumping Equipment	167,282			167,282
Transmission & Distribution	4,167,483			4,167,483
Water Treatment	542,810			542,810
Sewer Lines	4,100,000			4,100,000
Vehicles & Heavy Equipment	113,229			113,229
Office, Tools, & Other Equipment	30,155			30,155
Total Capital Assets Being Depreciated	10,831,255	821,721		11,652,976
Less Accumulated Depreciation For:				
Buildings - Water Distribution	(214,280)	(8,310)		(222,590)
Buildings - Sewer Processing	(115,000)	(23,000)		(138,000)
Wells, Springs, & Reservoirs	(66,379)	(22,247)		(88,626)
Pumping Equipment	(158,918)	(8,364)		(167,282)
Transmission & Distribution	(936,348)	(64,115)		(1,000,463)
Water Treatment	(542,811)			(542,811)
Sewer Lines	(273,333)	(54,665)		(327,998)
Vehicles & Heavy Equipment	(84,754)	(4,269)		(89,023)
Office, Tools, & Other Equipment	(15,336)	(2,948)		(18,284)
Total Accumulated Depreciation	(2,407,159)	(187,918)		(2,595,077)
Total Capital Assets, Being Depreciated, Net	8,424,096	633,803		9,057,899
Proprietary Activities Capital Assets, Net	$ 8,823,204	$ 633,803	$ (87,320)	$ 9,369,687

NOTE 5. COMPENSATED ABSENCES

It is the District's policy to permit its employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave because the District does not have a policy to pay any amounts when employees separate from service with the District. The unused vacation or annual leave is considered a vested benefit.

In recognition of the resulting obligation, the District has accrued a liability for earned but unused vacation leave and accrued compensation time, having determined that payment of such compensation is probable and having developed a reasonable estimate based upon current salary costs, annual leave, and compensation time amounts as of December 31, 2016. The liability for compensated absences at December 31, 2016 was $16,272.

NOTE 6. LONG-TERM DEBT

A. Waterworks Revenue Series A and Series B 1987

On April 22, 1987, the District entered into an agreement with Rural Development to issue $300,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvement to the existing waterworks system of the District. The Waterworks System Bond Issue consisted of Series A and B bonds.

Series A was issued in the amount of $250,000 and Series B, in the amount of $50,000. Semiannual interest payments at a rate of 6.375% for Series A and 5.875% for Series B are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2016, the principal balance outstanding was $146,000 on Series A and $26,400 on Series B. Debt Service requirements for year ending December 31, 2016, and thereafter is as follows:

Waterworks Revenue Bond Series A 1987:

Year Ended December 31	Principal	Interest and Fees
2017	$ 9,000	$ 9,021
2018	10,000	8,415
2019	10,000	7,778
2020	11,000	7,109
2021	12,000	6,375
2022-2026	75,000	18,647
2027	19,000	606
Totals	$ 146,000	$ 57,951

NOTE 6. LONG-TERM DEBT (CONTINUED)

A. Waterworks Revenue Series A and Series B 1987 (Continued)

Waterworks Revenue Bond Series B 1987:

Year Ended December 31	Principal	Interest & Fees
2017	$ 1,800	$ 1,498
2018	1,900	1,389
2019	2,000	1,275
2020	2,100	1,154
2021	2,200	1,028
2022-2026	13,200	2,979
2027	3,200	94
Totals	$ 26,400	$ 9,417

B. Waterworks Revenue Series 1996

On August 5, 1996, the District entered into an agreement with Rural Development to issue $295,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvement to the existing waterworks system of the District. Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2016, the principal balance outstanding was $213,000. Debt Service requirements for year ending December 31, 2016, and thereafter is as follows:

Year Ended December 31	Principal	Interest & Fees
2017	$ 6,500	$ 9,439
2018	7,000	9,135
2019	7,500	8,809
2020	7,500	8,471
2021	8,000	8,123
2022-2026	46,000	34,718
2027-2031	57,500	23,119
2032-2036	73,000	8,555
Totals	$ 213,000	$ 110,369

C. Waterworks Revenue Series 2002

On June 3, 2002, the District entered into an agreement with Rural Development to issue $356,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvement to the existing waterworks system of the District.

NOTE 6. LONG-TERM DEBT (CONTINUED)

C. Waterworks Revenue Series 2002 (Continued)

Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2016, the principal balance outstanding was $298,000. Debt Service requirements for year ending December 31, 2016, and thereafter is as follows:

Year Ended December 31	Principal		Interest & Fees	
2017	$	6,000	$	13,275
2018		7,000		12,983
2019		7,000		12,668
2020		7,000		12,353
2021		8,000		12,015
2022-2026		43,000		54,503
2027-2031		54,000		43,650
2032-2036		67,000		30,128
2037-2041		83,000		14,253
2042		16,000		360
Totals	$	298,000	$	206,188

D. Waterworks Revenue Series 2010

On May 10, 2010, the District entered into an agreement with Rural Development to issue $798,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvement to the existing waterworks system of the District. Semiannual interest payments at a rate of 2.25% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2016, the principal balance outstanding was $732,000. Debt Service requirements for year ending December 31, 2016, and thereafter is as follows:

NOTE 6. LONG-TERM DEBT (CONTINUED)

D. Waterworks Revenue Series 2010 (Continued)

Year Ended December 31	Principal	Interest & Fees
2017	$ 14,000	$ 16,312
2018	14,500	15,992
2019	15,000	15,660
2020	15,500	15,317
2021	16,000	14,963
2022-2026	85,000	69,245
2027-2031	97,500	58,979
2032-2036	110,500	47,301
2037-2041	126,000	34,009
2042-2046	143,000	18,900
2047-2049	95,000	3,229
Totals	$ 732,000	$ 309,907

E. KIA Assistance Loan

On April 1, 2015, the District entered into construction loan agreement with the Kentucky Infrastructure Authority (KIA) to finance upgrades to be made to the District's processing plant in the amount of $821,721. The loan also includes principal forgiveness in the amount of $205,430 to be given the first two years of the agreement. Semiannual principle and interest payments are required beginning on June 1, 2017. Interest is calculated at a rate of .75% for the term of the loan. During the year the District received $393,921 in loan proceeds and was forgiven $98,480. As of December 31, 2016, the principal balance outstanding was $616,291.

Year Ended December 31	Principal	Interest & Fees
2017	$ 28,673	$ 4,569
2018	28,888	4,353
2019	29,105	4,136
2020	29,324	3,917
2021	29,544	3,697
2022-2026	151,084	15,121
2027-2031	156,846	9,360
2032-2036	162,827	3,377
Totals	$ 616,291	$ 48,530

NOTE 6. LONG-TERM DEBT (CONTINUED)

F. Changes in Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
Proprietary Activities:					
Revenue Bonds	$ 1,451,600	$	$ 36,200	$ 1,415,400	$ 37,300
Loans Payable	320,850	393,921	98,480	616,291	28,673
Proprietary Activities Long-term Liabilities	$ 1,772,450	$ 393,921	$ 134,680	$ 2,031,691	$ 65,973

NOTE 7. NET POSITION

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net assets are reported in three categories: 1) Net Investment in Capital Assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) Restricted Net Assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law though constitutional provisions or enabling legislation; and 3) Unrestricted Net Assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

NOTE 8. PENSIONS AND OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 61.645 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Benefit contributions and provisions are established by statute. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided

NOTE 8. PENSIONS AND OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

through CERS. The District's contribution rate for nonhazardous employees was 17.67 percent for the first months of 2016 and 17.06 percent for the last six months of 2016.

The District's contribution for FY 2014 was $39,670, FY 2015 was $37,435, and FY 2016 was $34,135.

The District contributed $34,135 for the year ended December 31, 2016, or 100% of the required contribution. The contribution was allocated $25,145 to the CERS pension fund and $8,990 to the CERS insurance fund for non-hazardous.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must met the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides postretirement health care coverage. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member Through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

As of December 31, 2016, the District has recorded a liability of $403,216, which has been calculated by the County Employees Retirement System of Kentucky to be their proportionate share of the unfunded net pension liability. The net pension liability was measured as of June 30, 2015, and the pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. As of December 31,

NOTE 8. PENSIONS AND OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

2016, the District's proportion was .009378%, which is equal to its proportion measured as of June 30, 2015.

As of December 31, 2016, the District reported a pension expense associated with the underfunding of the pension of $26,803 in the Governmental Activities, which is its proportional share of the additional pension expense. The total pension expense was measured as of June 30, 2015, and the pension expense used to calculate the total pension expense was determined by an actuarial valuation as of that date. The District's proportion of the total pension expense was based upon a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 3,350	
Changes of assumptions	40,660	
Net difference between projected and actual earnings on Plan investments	3,615	
Changes in proportion and differences between District contributions and proportionate share of contributions	7,788	
District contributions subsequent to the measurement date	34,135	
	$ 89,548	$ -

As of December 31, 2016, the District reported deferred inflows of zero in the Governmental Activities, which is its proportionate share of the total deferred inflows. The total deferred inflows were measured as of June 30, 2015 by the County Employees Retirement System of Kentucky by an actuarial valuation as of that date, and the total deferred inflows were used to calculate the District's deferred inflows. The District's proportion of the total deferred inflows was based on the District's long-term share of the net difference between projected and actual investment earnings on pension plan investments relative to the difference for all participating entities, actuarially determined. As of December 31, 2015, the District's proportion was .009378%, which was equal to its proportion measured as of June 30, 2015.

Actuarial Assumptions- The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

NOTE 8. PENSIONS AND OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008-June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified		
Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified		
Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.12%
Total	100%	

NOTE 8. PENSIONS AND OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Discount Rate: The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percenatage-point higher (8.50 percent) than the current rate:

	Discount Rate	District's Proportionate Share of Net Pension Liability
1% decrease	6.50%	$ 407,248
Current discount rate	7.50%	$ 403,216
1% increase	8.50%	$ 399,184

The Kentucky Retirement Systems' annual financial report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646. It is also available online at https://kyret.ky.gov.employers/GASB/Pages/GASB-Library.aspx.

NOTE 9. INSURANCE COVERAGE

The District is a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

NOTE 10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of this report and nothing came to attention that should be disclosed.

NOTE 11. PRIOR PERIOD ADJUSTMENT

Beginning net assets and beginning cash balances were increased by $25 due to prior year voided check.

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To the Commissioners
Garrison-Quincy-KY-O-Heights Water District
Garrison, Kentucky

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*

We have audited the financial statements of the business-type activities of Garrison-Quincy-KY-O-Heights Water District, as of and for the year ended December 31, 2016, which collectively comprise the District's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 21, 2018. 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.

Internal Control Over Financial Reporting

Management of the Garrison-Quincy-KY-O-Heights Water District is responsible for establishing and maintaining effective internal control over financing reporting. In planning and performing our audit, we considered Garrison-Quincy-KY-O-Heights Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Garrison-Quincy-KY-O-Heights Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Garrison-Quincy-KY-O-Heights Water District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We identified one deficiency that we believe to be a material weakness described in the accompanying comments and recommendations as item 2016-001.

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. We consider the deficiency described in the accompanying comments and recommendations as item 2016-002 to be a significant deficiency.

<u>Compliance And Other Matters</u>

As part of obtaining reasonable assurance about whether the Garrison-Quincy-KY-O-Heights Water District's financial statements as of and for the year ended December 31, 2016, are free of 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*.

The District's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Commissioners, United States Department of Agriculture, Rural Development, and other federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Peercy and Gray, PSC

Peercy & Gray, PSC
November 21, 2018

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS

2016-001 The District Should Correct The Accounting System In Order To Produce Accurate Records And Ensure That All Necessary Adjustments Are Made

During auditing procedures it was found that numerous adjustments were required to correct the trial balance that are material to the financial statements as a whole.

Proper accounting and reporting practices require that financial statements be accurate and complete in order to allow users to obtain an accurate financial picture of the entity.

There was a lack of knowledge and understanding of the system and how the financial system operates. Failure to have accurate financial records may result in inaccurate information being presented to its users and to the Public Service Commission.

We recommend the District continue to make corrections to the system so that accurate financial reports may be generated.

District's Response: Computer program was not installed correctly from the beginning. Water District will continue to make corrections so that actual financial reports will be generated.

2016-002 The District Does Not Have A Process To Collect Outstanding Accounts Receivable Balances And To Determine When Accounts Receivable Accounts Should Be Written Off

During testing of accounts receivables, it was determined that the District did not attempt to collect outstanding accounts receivable balances from customers that do not still have an active account. The District does not have written policies or procedures in place to properly collect and determine when accounts receivables should be written off.

Sound business practices require attempts to collect outstanding accounts receivables and when such accounts are deemed uncollectible and should be written off.

There was a lack of knowledge and understanding of the need to implement such policies. Failure to have a process to attempt collection of the outstanding balances results in the District not being able to collect funds due from past due accounts.

We recommend District implement policies in order to collect outstanding accounts receivables and a policy to determine when such accounts should be written off.

District's Response: At the end of 2014, we sent a list to the County Attorney of bad debt customers. There has been some collected since then.