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**GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
GARRISON, KENTUCKY**

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
GARRISON, KENTUCKY
Years Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of Garrison-Quincy-KY-O-Heights Water District, Kentucky as of and for the year ended December 31, 2017, 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.

Auditor's 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Garrison-Quincy-KY-O-Heights Water District, Kentucky, as of December 31, 2017, 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 Matters

Other Information

The schedule of the District's proportionate share of net pension liability and schedule of District contributions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of the District's proportionate share of net pension liability and schedule of District contributions are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2019, on our consideration of the Garrison-Quincy-KY-O-Heights Water District, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Garrison-Quincy-KY-O-Heights Water District, Kentucky's internal control over financial reporting and compliance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing 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 appropriated operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

October 24, 2019

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
DECEMBER 31,

ASSETS & DEFERRED OUTFLOWS	2017
Current Assets	
Cash	\$ 14,969
Accounts receivable	
Customers, net	79,293
Unbilled Receivables	28,392
Prepaid expenses	6,112
Inventory	24,861
	<u>153,627</u>
Restricted Assets	
Cash	188,483
	<u>188,483</u>
Fixed Assets	
Property, Plant & Equipment	11,978,551
Less accumulated depreciation	(2,775,079)
Construction-in-progress	-
	<u>9,203,472</u>
 Deferred Outflow of Resources	 <u>86,943</u>
 TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	 <u>\$ 9,632,525</u>
 LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable	\$ 12,908
Accrued Wages and Benefits	3,277
Deferred Compensation	610
Compensated Absences	16,272
Customer deposits	9,207
Accrued Retirement	4,172
Taxes payable	2,345
Accrued interest payable	26,783
Current Portion of bonds payable	69,288
Total Current Liabilities	<u>144,862</u>
Noncurrent Liabilities	
Accrued pension and OPED liabilities	479,531
Bonds payable, net	1,896,430
Total Long-term Liabilities	<u>2,375,961</u>
 Deferred Inflow of Resources	 <u>-</u>
 TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	 2,520,823
 Net Position	
Investment in Capital Assets, Net of Related Debt	7,237,754
Restricted Net Assets	188,483
Unrestricted Net Assets	(314,534)
TOTAL NET POSITION	<u>\$ 7,111,702</u>

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

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
PROPRIETARY FUND
for the years ended December 31,

	2017
OPERATING INCOME	
Water sales	\$ 567,653
Sewer sales	148,488
Other revenue	<u>22,985</u>
Total operating income	<u>739,126</u>
OPERATING EXPENSES	
Water Expenses	
Advertising and Printing	-
Bad Debt Expense	-
Bank Charges	417
Chemicals and Salt	12,914
Commissioners Salaries	3,960
Continuing Education	1,212
Dues and Subscriptions	2,422
Health Insurance	21,000
Materials and Supplies	47,926
Miscellaneous	10,121
Office Supplies	7,336
Outside Services	33,830
Other Utilities	2,658
Payroll Taxes	18,458
Phone	4,805
Postage	6,810
Professional Fees	10,769
Insurance	15,335
Repairs and Maintenance	25,000
Retirement	120,444
Salaries	176,376
Electric	39,870
Vehicle Expense	9,595
Water Purchased	36,764
Total Water Expenses	<u>608,021</u>
Sewer Expenses	
Electric	20,967
Materials and Supplies	21,317
Phone	1,201
Postage	872
Testing	9,530
Miscellaneous	275
Repairs and Maintenance	4,973
Truck Expense	-
Salaries and Wages	55,698
Total Sewer Expenses	<u>114,833</u>
Total operating expense	<u>722,854</u>
Operating income before depreciation	16,272
Depreciation expense-Water	\$ 102,337
Depreciation expense-Sewer	<u>77,665</u>
Total Depreciation Expense	180,002
OPERATING INCOME (LOSS)	(163,730)
Non-operating income (Expenses)	
Gain (Loss) on disposal of assets	-
Bond Interest Reimbursement	6,194
Interest income	209
Interest expense	(54,260)
Total Non-Operating Income (Expense)	<u>(47,857)</u>
CHANGE IN NET POSITION	(211,587)
NET POSITION, BEGINNING OF YEAR	<u>7,323,291</u>
NET POSITION, END OF YEAR	<u>\$ 7,111,702</u>

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

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
for the years ended December 31,

2017

CASH FLOW FROM OPERATING ACTIVITIES

Receipts From Customers	\$ 716,141
Payments to Suppliers	(398,367)
Payments to Employees	(236,034)
Other Receipts (Payments)	<u>22,985</u>

Net Cash (Used) Provided by Operating Activities	104,725
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CASH FLOW FROM INVESTING ACTIVITIES

Reserve Funds	(16,803)
Interest Income	<u>209</u>

Net Cash (Used) Provided by Investing Activities	<u>(16,594)</u>
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CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds From Capital Debt	-
Principal Paid on Capital Debt	(65,973)
Purchases of Capital Assets	(13,787)
Bond Interest Reimbursement	6,194
Interest Paid on Capital Debt	<u>(54,260)</u>

Net cash (Used) Provided by Financing Activities	<u>(127,826)</u>
---	-------------------------

NET INCREASE (DECREASE) IN CASH	(39,695)
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Cash and Cash Equivalents - At beginning of year	<u>243,148</u>
--	----------------

CASH AND CASH EQUIVALENTS - AT END OF YEAR	<u>\$ 203,452</u>
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Reconciliation of Operating Income (Loss) to Net Cash Provided

(Used) by Operating Activities:

Operating Income (Loss)	\$ (163,730)
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Adjustments to Reconcile Operating Income to Net Cash

Provided (Used) by Operating Activities:

Depreciation Expense	180,002
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Change in Assets and Liabilities:

Accounts Receivable, Net	(6,411)
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Inventories	4,692
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Prepaid Expense	-
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Accounts Payable and Other Payables	89,906
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Customer Deposits	26
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Accrued Wages and Vacation	<u>241</u>
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Net Cash Provided (Used) by Operating Activities	<u>\$ 104,725</u>
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The accompanying notes are an integral
part of the financial statements.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

NOTE 1: ORGANIZATION AND ACCOUNTING POLICIES

The Garrison-Quincy-KY-O-Heights Water District was created and organized as a public body corporate in Garrison-Quincy-KY-O-Heights, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Garrison-Quincy-KY-O-Heights Fiscal Court to operate a water distribution system and wastewater services. The District is regulated by the Kentucky Public Service Commission.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operation of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Garrison-Quincy-KY-O-Heights Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District.

Based on the foregoing criteria there are no other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (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.

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 management focus. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

Note 1: ORGANIZATION AND ACCOUNTING POLICIES

Basis of Accounting

The District maintains its accounting records on the accrual basis during the year. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is maintained at lower of cost or market.

Utility Plant

Utility Plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

Depreciation

Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates on a straight-line basis determined by reference to Utility Standards Rates (NARUC). The provisions for depreciation in 2017 reflect those standard rates by asset class.

Unbilled Revenue

The District records revenue as billed to its customers on monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statement includes no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

Net Position

Net position represents the difference between assets and liabilities in the statement of net assets. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. 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.

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 these accounts. The District had a total of \$74,782 in these accounts for the purpose of maintaining the water system. This reserve was underfunded by \$1,631.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

NOTE 2: RESTRICTIONS ON CASH (Continued)

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

Customer Deposit Account	\$ 9,207
Capital Equipment Account	8,601
Debt Service Accounts:	
Bond Sinking Fund Account	70,675
KIA Account Loan Account	25,218
Depreciation Reserve:	
Depreciation Account	19,077
Sewer Depreciation Account	10,844
Certificates of Deposit-	
Replacement Reserves	23,000
Depreciation Fund	<u>21,861</u>

Total Restricted Cash Accounts \$188,493

NOTE 3: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does have a deposit policy for custodial credit risk. As of December 31, 2017, \$0 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank \$0

NOTE 4: 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, 2017. The liability for compensated absences at December 31, 2017 was \$16,272.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

NOTE 5: 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 improvements 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, 2017 the principal balance outstanding was \$137,000 on Series A and \$24,600 on Series B. Debt Service requirements for year ending December 31, 2017, and thereafter is as follows:

Waterworks Revenue Bond Series A 1987:

Year Ended December 31	Principal	Interest and Fees
2018	10,000	8,415
2019	10,000	7,778
2020	11,000	7,108
2021	12,000	6,375
2022	13,000	5,578
2023	14,000	4,718
2024	15,000	3,793
2025	16,000	2,805
2026	17,000	1,753
2027	19,000	606
	137,000	48,928

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

NOTE 5: LONG-TERM DEBT (Continued)

Waterworks Revenue Bond Series B 1987:

Year Ended December 31	Principal	Interest and Fees
2018	1,900	1,389
2019	2,000	1,275
2020	2,100	1,154
2021	2,200	1,028
2022	2,300	896
2023	2,500	755
2024	2,600	605
2025	2,800	447
2026	3,000	276
2027	3,200	94
	24,600	7,920

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

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, 2017, the principal balance outstanding was \$206,500. Debt Service requirements for year ending December 31, 2017, and thereafter is as follows:

Waterworks Revenue Series 1996

Year Ended December 31	Principal	Interest and Fees
2018	\$ 7,000	\$9,135
2019	7,500	8,809
2020	7,500	8,471
2021	8,000	8,123
2022	8,500	7,751
2023-2027	48,000	32,603
2028-2032	60,000	20,475
2033-2036	60,000	5,513
	<hr/>	<hr/>
	\$ 206,500	\$100,879

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

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 extensions, additions, and improvements 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, 2017, the principal balance outstanding was \$292,000. Debt Service requirements for year ending December 31, 2017, and thereafter is as follows:

Waterworks Revenue Series 2002

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest and Fees</u>
2018	\$7,000	\$12,983
2019	7,000	12,668
2020	7,000	12,353
2021	8,000	12,015
2022	8,000	11,655
2023-2027	45,000	52,493
2028-2032	56,000	41,175
2033-2037	70,000	27,045
2038-2042	84,000	9,495
	<u>\$292,000</u>	<u>\$191,880</u>

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

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, 2017, the principal balance outstanding was \$718,000. Debt Service requirements for year ending December 31, 2017, and thereafter is as follows:

Waterworks Revenue Series 2010

Year Ended December 31		Principal	Interest and Fees
2018	\$	14,500	\$15,992
2019		15,000	15,660
2020		15,500	15,317
2021		16,000	14,963
2022		16,000	14,603
2023-2027		87,500	67,303
2028-2032		100,000	56,756
2033-2037		113,500	44,781
2038-2042		129,000	31,140
2043-2047		147,000	15,638
2048-2049		64,000	1,440
	\$	718,000	\$293,591

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

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 included principal forgiveness in the amount of \$205,430 to be given the first two years of the agreement. Semiannual principal and interest payments are required beginning June 1, 2017. Interest is calculated at a rate of .75% for the term of the loan. As of December 31, 2017, the principal balance outstanding was \$587,619.

KIA Assistance Loan

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest and Fees</u>
2018	\$28,888	\$5,804
2019	29,105	5,515
2020	29,324	5,223
2021	29,544	4,929
2022	29,766	4,633
2023-2027	152,319	18,648
2028-2032	158,025	10,907
2033-2036	130,648	2,955
	<hr/>	<hr/>
	\$587,619	\$58,615

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

F. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Proprietary Activities:</u>					
Revenue Bonds	\$1,415,400	-	\$37,300	\$1,378,100	\$40,400
Loans Payable	616,291	-	28,673	587,618	28,888
Proprietary Activities					
Long-Term Liabilities	\$2,031,691	-	\$65,973	\$1,965,718	\$69,288

NOTE 6: PENSIONS

Plan description- Regular, Full-time, employees of the Commission are provided with pensions through the County Employees Retirement System (CERS)- a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested as a whole each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefits terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky retirement System issues a publicly available financial report that can be obtained on their website.

Benefits provided- CERS provides retirement, insurance, disability and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

NOTE 6: PENSIONS (CONTINUED)

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the legislature.

Contributions- Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The District's contractually required contribution rate for the year ended June 30, 2017 was 18.68% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to pension plan from the District were \$43,458 for the year ended December 31, 2017.

Pension Liabilities Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At December 31, 2017, The District reported a liability of \$479,531 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's portion of the net pension liability was based on the District's proportionate share of retirement contributions for the year ended December 31, 2017. At June 30, 2016 the District's proportionate share was 0.00974%.

For the year ended December 31, 2017 the District recognized pension expense of \$72,455. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual		
Earnings on pension plan investments	\$ -0-	\$ -0-
District's contributions subsequent		
To the measure date	<u>86,943</u>	<u>-0-</u>
Total	\$ 86,943	\$ -0-

\$43,914 reported as deferred outflows of resources related to pension resulting from the District's contributions subsequent to the measurement date will be recognized as a

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

NOTE 6: PENSIONS (CONTINUED)

reduction of the net pension liability in the year June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2018	\$ 0
December 31, 2019	0
December 31, 2020	0
December 31, 2021	0
December 31, 2022	0
Thereafter	<u>-0-</u>
Total	\$ 0

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

Inflation	3.25%
Salary Increases	4.0% average including inflation
Investment rate of return	7.50% net of pension plan investment expense Including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005-June 30, 2008.

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008 is outlined in a report dated August 25, 2009. Several factors are considered evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return and net of investment expense) 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

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

NOTE 6: PENSIONS (CONTINUED)

assumption and is not expected to change absent a significant change in the asset allocation a change in the inflation assumption or fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Unexpected Nominal Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
	<u>100%</u>	

Discount Rate- The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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%, 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%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease 6.75%</u>	<u>Current Discount Rate 7.75%</u>	<u>1% Increase 8.75%</u>
Center's Proportionate Share of the net pension liability	\$417,676	\$479,531	\$541,822
	-19-		

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

NOTE 6: PENSIONS (CONTINUED)

Pension plan fiduciary net position- Detailed information about the pension plan's fiduciary net position is available in the separate issued CERS financial report.

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident 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 8: CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
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				
Total Capital Assets Not Being Depreciated	311,788			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	1,001,151			1,001,151
Pumping Equipment	167,282	2,787		170,069
Transmission & Distribution	4,167,483	11,000		4,178,483
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	11,652,976	13,787		11,666,763
Less Accumulated Depreciation For:				
Buildings - Water Distribution	(222,591)	(8,310)		(230,901)
Buildings - Sewer Processing	(138,000)	(23,000)		(161,000)
Wells, Springs, & Reservoirs	(88,627)	(22,247)		(110,874)
Pumping Equipment	(167,282)			(167,282)
Transmission & Distribution	(1,000,462)	(64,284)		(1,064,747)
Water Treatment	(542,810)			(542,810)
Sewer Lines	(327,998)	(54,665)		(382,663)
Vehicles & Heavy Equipment	(89,023)	(4,269)		(93,292)
Office, Tools, & Other Equipment	(18,284)	(3,227)		(21,511)
Total Accumulated Depreciation	(2,595,077)	(180,002)		(2,775,080)
Total Capital Assets, Being Depreciated, Net	9,057,899	(166,215)		8,891,684
Proprietary Activities Capital Assets, Net	\$ 9,369,687	\$ (166,215)	\$ 0	\$ 9,203,472
Proprietary Activities:				
Proprietary Activities				180,002
Total Depreciation Expense - Proprietary Activities				\$ 180,002

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017

NOTE 10: SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
SCHEDULE OF WATER DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
District's proportion of the net pension liability	0.97400%	0.93800%	0.90800%
District's proportionate share of the net pension liability	\$ 479,531	\$ 403,216	\$ 403,216
District's covered employee payroll	\$ 229,556	\$ 236,106	\$ 234,999
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	208.895%	170.778%	171.582%
Plan fiduciary net position as a percentage of the total pension liability	6.74%	5.51%	5.48%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution:	\$ 27,670	\$ 28,000	\$ 27,690
Contributions in relation to the contractually required contribution:	<u>27,670</u>	<u>28,000</u>	<u>27,690</u>
Contribution deficiency (excess):	-	-	-
District's covered-employee payroll:	229,556	236,106	234,999
District's proportionate share of the pension contributions as a percentage of its covered-employee payroll:	12.05%	11.86%	11.78%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2017

(1) CHANGES OF ASSUMPTIONS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2016:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
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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 Board of Commissioners
GARRISON-QUINCY-KY-O-HEIGHTS Water District
Garrison, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards, applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of GARRISON-QUINCY-KY-O-HEIGHTS Water District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the GARRISON-QUINCY-KY-O-HEIGHTS Water District, Kentucky's basic financial statements and have issued our report thereon dated October 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered GARRISON-QUINCY-KY-O-HEIGHTS Water District, Kentucky'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 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, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the GARRISON-QUINCY-KY-O-HEIGHTS Water District, Kentucky'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not 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. (2017-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GARRISON-QUINCY-KY-O-HEIGHTS Water District, Kentucky's financial statements 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*.

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.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

October 24, 2019

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
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ACCOUNTANT'S REPORT ON
MANAGEMENT POINTS

Board of Commissioners
Garrison-Quincy-KY-O-Heights Water District
Garrison, Kentucky

In planning and performing my audit of the basic financial statements of GARRISON-QUINCY-KY-O-HEIGHTS Water District for the year ended December 31, 2017, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated October 24, 2019, on the financial statements of the GARRISON-QUINCY-KY-O-HEIGHTS Water District.

I will review the status of these comments and suggestions with various Water District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Donna J. Hendrix, CPA

DONNA J. HENDRIX, CPA, PSC
Morehead, Kentucky

October 24, 2019

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017

PRIOR YEAR AUDIT FINDINGS AND RESPONSES

2016-1 **The District Should Correct The Accounting System In Order To Produce
Accurate Records And Ensure That All Necessary Adjustments Are Made**

Status: This issue has been resolved.

2016-2 **The District Does Not Have A Process To Collect Outstanding Accounts
Receivable Balances And To Determine When Accounts Receivable Accounts Should Be
Written Off (SIGNIFICANT DEFICIENCY)**

Status: This issue has not been resolved and will be repeated on Current Year Points as 2017-1.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT, KENTUCKY
MANAGEMENT POINTS, RECOMMENDATIONS AND RESPONSES
Year Ended December 31, 2017

Current year Management Points

2017-1 Lack of a Policy for collecting outstanding Accounts Receivable Balances
(SIGNIFICANT DEFICIENCY)

Condition: The District does not have a policy for collecting outstanding accounts receivables and a policy to determine when such accounts should be written off.

Recommendation: The Board should implement a new policy for collecting outstanding accounts receivables and a policy to determine when such accounts should be written off.

Response: The Board will implement new policy immediately.

2017-2 Monthly Meeting Minutes Lacks Detail

Condition: While reviewing the monthly meeting minutes I discovered they were not detailed enough to get information of what went on during the year.

Recommendation: The monthly meeting minutes should be much more detailed when written up.

Response: The Board will begin this new procedure at the next meeting.

2017-3 Monthly Bank Statement Review and Approval By Board

Condition: I discovered that the monthly bank statement is not being reviewed and approved.

Recommendation: I recommend having the Treasurer or a Board member to review, sign and date the monthly bank statement. This will enhance internal controls.

Response: All monthly bank statements will be reviewed monthly.

**GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT, KENTUCKY
MANAGEMENT POINTS, RECOMMENDATIONS AND RESPONSES
Year Ended December 31, 2017**

2017-4 Board Approvals of Invoices

Condition: I discovered during testing of disbursements that when the Board signs checks, they are not reviewing the invoices at the same time they are signing the Accounts Payable checks.

Recommendation: The Board should be reviewing each invoice at the same time they are signing each Accounts payable check.

Response: The Board will implement this new procedure immediately.