

LARUE COUNTY WATER DISTRICT NO. 1

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL  
STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2016 AND 2015

LARUE COUNTY WATER DISTRICT NO. 1

CONTENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Pages</u>
Independent Auditor's Report	1-3
FINANCIAL STATEMENTS:	
Statements of Net Position	4
Statements of Revenues, Expenses and Changes in Fund Net Position	5
Statements of Cash Flows	6
Notes to Financial Statements	7-21
REQUIRED SUPPLEMENTARY INFORMATION:	
CERS Pension Schedules and Notes to Schedules	
Schedule of the District's Proportionate Share of the CERS Net Pension Liability	22
Schedule of Contributions to CERS	23
Notes to Required Supplementary Information	24
SUPPLEMENTARY INFORMATION:	
Schedule I - Bond and Interest Requirements	25
Schedule II - General and Administrative Expenses	26
Schedule III - Organization Data	27
INTERNAL CONTROL AND FISCAL COMPLIANCE:	
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 <i>Government Auditing Standards</i>	28-29
Schedule of Findings and Responses	30-31



CHRIS R. CARTER, CPA  
ANN M. FISHER, CPA  
SCOTT KISSELBAUGH, CPA  
PHILIP A. LOGSDON, CPA  
BRIAN S. WOOSLEY, CPA

STILES, CARTER & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS  
WWW.SCACPA.COM

AMERICAN INSTITUTE OF CPAS  
KENTUCKY SOCIETY OF CPAS

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Larue County Water District No. 1  
Buffalo, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Larue County Water District No. 1 as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Larue County Water District No. 1, as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

As discussed in Note 1 to the financial statements, during the year ended December 31, 2016, the District adopted Governmental Accounting Standards Board Statement 72, *Fair Value Measurement and Application*, Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, Statement 77, *Tax Abatement Disclosures*, Statement 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* and Statement 79, *Certain External Investment Pools and Pool Participants*. As discussed in Note 1 to the financial statements, during the year ended December 31, 2016, in accordance with GASB Statement No. 62, Paragraphs 476-500, *Regulated Operations*, which requires that the effects of the rate-making process be recorded in the financial statements, the District elected to record a regulatory asset for the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions. Accordingly, the District recognizes the actuarially determined contribution as the current year pension expense. Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of the net pension liability on page 22 and schedule of contributions on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Larue County Water District No. 1's basic financial statements. Schedules I and II are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules I and II 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, Schedules I and II are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Schedule III has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2017, on our consideration of Larue County Water District No. 1's internal control over financial reporting and 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* in considering Larue County Water District No. 1's internal control over financial reporting and compliance.

*Hiles, Cate + Associates*  
Certified Public Accountants  
Elizabethtown, Kentucky  
June 5, 2017

LARUE COUNTY WATER DISTRICT NO. 1STATEMENTS OF NET POSITIONDECEMBER 31, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 224,753	\$ 236,789
Unrestricted investments	182,246	181,478
Accounts receivable, net	100,553	95,531
Unbilled receivables	59,053	65,000
Prepaid loan payment	14,532	14,532
Prepaid insurance	15,505	15,505
Materials and supplies	37,698	34,058
<b>TOTAL CURRENT ASSETS</b>	<b>634,340</b>	<b>642,893</b>
<b>NONCURRENT ASSETS:</b>		
Restricted cash and cash equivalents	500,538	564,149
Restricted investments	950,221	945,102
Regulatory asset	503,466	439,246
Non-depreciable capital assets	60,580	60,580
Depreciable capital assets, net of accumulated depreciation	8,701,979	8,879,804
<b>TOTAL NONCURRENT ASSETS</b>	<b>10,716,784</b>	<b>10,888,881</b>
<b>TOTAL ASSETS</b>	<b>11,351,124</b>	<b>11,531,774</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>122,278</b>	<b>86,490</b>
<u>LIABILITIES</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 34,791	\$ 31,626
Payroll and other accrued liabilities	13,986	5,408
Accrued vacation	38,194	32,133
Accrued interest	284	284
Customer deposits	18,408	17,788
Note and bond payable	92,272	87,690
<b>TOTAL CURRENT LIABILITIES</b>	<b>197,935</b>	<b>174,929</b>
<b>NONCURRENT LIABILITIES:</b>		
Customer deposits	104,309	100,800
Net pension liability- CERS	625,744	525,737
Note and bond payable	2,532,547	2,626,440
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>3,262,600</b>	<b>3,252,977</b>
<b>TOTAL LIABILITIES</b>	<b>3,460,535</b>	<b>3,427,906</b>
<u>NET POSITION</u>		
Net investment in capital assets	6,137,740	6,226,255
Restricted net position	161,321	159,878
Unrestricted	1,713,806	1,804,225
<b>TOTAL NET POSITION</b>	<b>\$ 8,012,867</b>	<b>\$ 8,190,358</b>

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

LARUE COUNTY WATER DISTRICT NO. 1STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITIONYEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Water sales	\$ 1,429,889	\$ 1,440,186
Other operating income	17,010	14,826
	<u>1,446,899</u>	<u>1,455,012</u>
TOTAL OPERATING REVENUES	1,446,899	1,455,012
OPERATING EXPENSES:		
Water purchased	396,541	409,759
Power purchased	26,037	24,173
Meter labor and expense	323,353	306,611
Bad debt	2,787	4,262
Repairs and maintenance	141,861	79,785
General and administrative expenses	286,602	268,958
Depreciation	380,186	361,223
	<u>1,557,367</u>	<u>1,454,771</u>
TOTAL OPERATING EXPENSES	1,557,367	1,454,771
OPERATING INCOME (LOSS)	(110,468)	241
NON-OPERATING REVENUES (EXPENSES):		
Interest income	7,678	11,909
Interest expense on long-term debt	(97,868)	(100,336)
	<u>(90,190)</u>	<u>(88,427)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(90,190)	(88,427)
CAPITAL CONTRIBUTIONS	<u>23,167</u>	<u>28,400</u>
CHANGE IN NET POSITION	(177,491)	(59,786)
NET POSITION, beginning of year, as restated	<u>8,190,358</u>	<u>8,250,144</u>
NET POSITION, end of year	<u>\$ 8,012,867</u>	<u>\$ 8,190,358</u>

The accompanying notes are integral part of these financial statements.

LARUE COUNTY WATER DISTRICT NO. 1STATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 1,440,952	\$ 1,455,670
Payments to suppliers	(723,658)	(682,690)
Payments to employees	(425,571)	(407,873)
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	291,723	365,107
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal payments on debt	(88,500)	(88,083)
Acquisition and construction of capital assets	(197,316)	(165,118)
Capital contributions	23,167	28,400
Prepayments of long-term debt	(14,532)	(14,532)
Interest on long-term debt	(97,868)	(100,336)
	<hr/>	<hr/>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(375,049)	(339,669)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income	7,678	11,909
	<hr/>	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,678	11,909
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(75,648)</b>	<b>37,347</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>800,939</b>	<b>763,591</b>
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 725,291</b>	<b>\$ 800,938</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ (110,468)	\$ 241
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	380,186	361,223
Provision for bad debts	2,787	4,262
(Increase) decrease in accounts receivable	(5,022)	658
Decrease in unbilled receivables	5,947	-
(Increase) in prepaid insurance	-	(5,548)
(Increase) in materials and supplies	(3,640)	-
Increase (decrease) in accounts payable	3,165	(3,279)
Increase in customer deposits	4,129	4,590
Increase (decrease) increase in accrued taxes payable	8,578	(208)
Increase in accrued vacation	6,061	3,168
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<b>\$ 291,723</b>	<b>\$ 365,107</b>
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The accompanying notes are an integral part of these financial statements.



## **NOTES TO FINANCIAL STATEMENTS**

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Brief history - The Larue County Water District No. 1 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Larue County, Kentucky.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

**A. REPORTING ENTITY**

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

**B. BASIC FINANCIAL STATEMENTS**

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

**C. BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL STATEMENT AMOUNTS

- 1. Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2016 and 2015, accounts receivable was stated net of an allowance for uncollectible accounts of \$10,500 and \$10,500. Bad debt expense for each of the years ended December 31, 2016 and 2015 was \$2,787 and \$4,262. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
- 2. Materials and Supplies – Materials and supplies are composed of items used for the construction of capital projects.
- 3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.
- 4. Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-75
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-30

- 5. Amortization – Bond discounts and premiums are being amortized using the straight-line method over the life of each respective bond issue.
- 6. Cash Equivalents – For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
- 7. Compensation for Future Absences - Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Claims and Judgments – These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.
9. Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.
10. Capital Contributions – Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
11. Long-term obligations are reported at face value, net of applicable premiums and discounts.
12. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.
13. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.
14. Net Position – Net position is divided into three components:
  - a. Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.
  - b. Restricted net position – consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
  - c. Unrestricted – all other net position is reported in this category.
15. Use of Estimates – The preparation of financial assets in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated net position, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
16. Restatement – Change in Accounting Principle – During the year ended December 31, 2016, the District adopted the provisions of GASB Statement No. 62, Paragraphs 476-500, Regulated Operations with respect to its participation in the County Employees Retirement System. The District presents comparative financial statements so the restatement was made through the December 31, 2015 amounts. The effect of the restatement was to record a regulatory asset of \$439,246, a change to beginning net position of \$389,606 and an increase in pension expense of \$3,984 which was reflected through the change in net position.

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LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17. Pensions – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions. Accordingly, the District recognizes the actuarially determined contribution as the current year pension expense.

18. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In February 2015, the GASB issued Statement 72, Fair Value Measurement and Application. GASB 69 establishes accounting and financial reporting standards related to fair value measurements. This statement is effective for periods beginning after June 15, 2015. This statement was adopted during the year ended December 31, 2016 and did not have an impact on the District's financial statements.

In June 2015, the GASB issued Statement 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement is effective for periods beginning after June 15, 2015. This statement was adopted during the year ended December 31, 2016 and did not have an impact on the District's financial statements.

In August 2015, the GASB issued Statement 77, Tax Abatement Disclosures. This statement is effective for periods beginning after December 15, 2015. This statement was adopted during the year ended December 31, 2016 and did not have an impact on the District's financial statements.

In December 2015, the GASB issued Statement 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans. This statement is effective for periods beginning after December 15, 2015. This statement was adopted during the year ended December 31, 2016 and did not have an impact on the District's financial statements.

In December 2015, the GASB issued Statement 79, Certain External Investment Pools and Pool Participants. This statement is effective for periods beginning after June 15, 2015. This statement was adopted during the year ended December 31, 2016 and did not have an impact on the District's financial statements.

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LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2016, the GASB issued Statement 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2016, the GASB issued Statement 81, Irrevocable Split-Interest Agreements. This statement is effective for periods beginning after December 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2016, the GASB issued Statement 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 72. This statement is effective for periods beginning after June 15, 2016 except for the requirements of the Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In November 2016, the GASB issued Statement 83, Certain Asset Retirement Obligations. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2017, the GASB issued Statement 84, Fiduciary Activities. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2017, the GASB issued Statement 85, Omnibus 2017. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2017, the GASB issued Statement 86, Certain Debt Extinguishment Issues. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015NOTE 2 – DEPOSITS

*Custodial Credit Risk—Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2016 and 2015, \$679,034 and \$763,219 of the District's bank balance of \$1,875,784 and \$1,957,153 was exposed to custodial credit risk. At December 31, 2016 and 2015, \$3,472 and \$1,568 of the amount exposed to custodial risk were not collateralized. The remaining amount was collateralized by securities held by the pledging financial institution.

NOTE 3 – RESTRICTED CASH

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2016 and 2015:

Restricted For	December 31, 2016	December 31, 2015
Debt Service	\$ 161,321	\$ 168,104
Reserve & Depreciation	1,289,439	1,341,147
	\$ 1,450,759	\$ 1,509,251

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LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

**NOTE 4 – CAPITAL ASSETS**

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2016, is summarized as follows:

	Balance 12/31/2015	Additions	Retirements	Balance 12/31/2016
<b>Non-Depreciable Assets:</b>				
Land and land rights	\$ 60,580	\$ -	\$ -	\$ 60,580
<b>Depreciable Assets:</b>				
Structures and improvements	271,503	8,800	-	280,303
Electric pumping equipment	197,665	-	-	197,665
Water Treatment Equipment	300	-	-	300
Standpipes and tanks	2,446,511	-	-	2,446,511
Transmission and distribution mains	9,594,999	-	-	9,594,999
Services	938,839	14,368	-	953,207
Hydrants	24,035	-	-	24,035
Office furniture and fixtures	92,412	-	-	92,412
Transportation equipment	129,932	-	-	129,932
Tool and shop equipment	95,080	-	-	95,080
Meters	553,640	179,192	-	732,832
<b>Total capital assets being depreciated</b>	<b>14,344,916</b>	<b>202,360</b>	<b>-</b>	<b>14,547,276</b>
<b>Less accumulated depreciation for:</b>				
Structures and improvements	(150,509)	(11,690)	-	(162,199)
Electric pumping equipment	(187,672)	(1,110)	-	(188,782)
Water treatment equipment	(300)	-	-	(300)
Standpipes and tanks	(587,802)	(55,502)	-	(643,304)
Transmission and distribution mains	(3,460,648)	(200,372)	-	(3,661,020)
Services	(571,617)	(27,352)	-	(598,969)
Hydrants	(19,404)	(178)	-	(19,582)
Office furniture and fixtures	(85,790)	(1,734)	-	(87,524)
Transportation equipment	(96,619)	(15,568)	-	(112,187)
Tool and shop equipment	(83,785)	(5,165)	-	(88,950)
Meters	(220,965)	(61,515)	-	(282,480)
<b>Total accumulated depreciation</b>	<b>(5,465,111)</b>	<b>(380,186)</b>	<b>-</b>	<b>(5,845,297)</b>
<b>Total capital assets being depreciated, net</b>	<b>8,879,805</b>	<b>(177,826)</b>	<b>-</b>	<b>8,701,979</b>
<b>Capital assets, net</b>	<b>\$ 8,940,385</b>	<b>\$ (177,826)</b>	<b>\$ -</b>	<b>\$ 8,762,559</b>

(Continued next page)



LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015NOTE 4 – CAPITAL ASSETS (CONTINUED)

Plant and equipment costs and accumulated depreciation at December 31, 2015, is summarized as follows:

	Balance 12/31/2014	Additions	Retirements	Balance 12/31/2015
<b>Non-Depreciable Assets:</b>				
Land and land rights	\$ 60,580	\$ -	\$ -	\$ 60,580
<b>Depreciable Assets:</b>				
Structures and improvements	269,348	2,155	-	271,503
Electric pumping equipment	197,665	-	-	197,665
Water Treatment Equipment	300	-	-	300
Standpipes and tanks	2,446,511	-	-	2,446,511
Transmission and distribution mains	9,575,378	19,621	-	9,594,999
Services	938,839	-	-	938,839
Hydrants	24,035	-	-	24,035
Office furniture and fixtures	92,412	-	-	92,412
Transportation equipment	129,932	-	-	129,932
Tool and shop equipment	95,080	-	-	95,080
Meters & Installation	460,037	142,701	(49,098)	553,640
<b>Total capital assets being depreciated</b>	<b>14,229,537</b>	<b>164,477</b>	<b>(49,098)</b>	<b>14,344,916</b>
<b>Less accumulated depreciation for:</b>				
Structures and improvements	(139,146)	(11,363)	-	(150,509)
Electric pumping equipment	(185,639)	(2,033)	-	(187,672)
Water Treatment Equipment	(300)	-	-	(300)
Standpipes and tanks	(532,300)	(55,502)	-	(587,802)
Transmission and distribution mains	(3,259,755)	(200,893)	-	(3,460,648)
Services	(544,457)	(27,160)	-	(571,617)
Hydrants	(19,226)	(178)	-	(19,404)
Office furniture and fixtures	(84,056)	(1,734)	-	(85,790)
Transportation equipment	(81,051)	(15,568)	-	(96,619)
Tool and shop equipment	(77,951)	(5,834)	-	(83,785)
Meters & Installation	(229,106)	(40,957)	49,098	(220,965)
<b>Total accumulated depreciation</b>	<b>(5,152,987)</b>	<b>(361,222)</b>	<b>49,098</b>	<b>(5,465,111)</b>
<b>Total capital assets being depreciated, net</b>	<b>9,076,550</b>	<b>(196,745)</b>	<b>-</b>	<b>8,879,805</b>
<b>Capital assets, net</b>	<b>\$ 9,137,130</b>	<b>\$ (196,745)</b>	<b>\$ -</b>	<b>\$ 8,940,385</b>

During the years ended December 31, 2016 and 2015, the District capitalized \$-0- and \$-0- of interest.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015NOTE 5 -- LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds and notes payable authorized under Kentucky Revised Statutes. All assets of the District are pledged as collateral for these bonds. Bond maturities and Sinking Fund requirements in each of the next five years and in subsequent five year increments are as follows:

Year	Note and Bond Payable		Sinking Fund Requirements
	Principal	Interest	
2017	93,083	96,341	189,424
2018	94,000	93,359	187,359
2019	98,583	90,279	188,862
2020	103,583	87,919	191,502
2021	104,000	83,685	187,685
2022-2026	596,415	360,420	956,835
2027-2031	637,917	235,358	873,275
2032-2036	629,916	109,832	739,748
2037-2041	159,586	26,022	185,608
2042-2046	44,000	10,671	54,671
2047-2051	50,500	4,209	54,709
Total	<u>\$ 2,611,583</u>	<u>\$ 1,198,095</u>	<u>\$ 3,809,678</u>

Changes in long-term obligations during the year ended December 31, 2016 were:

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	\$ 238,000	\$ -	\$ (3,500)	\$ 234,500	\$ 3,500
Note Payable	2,462,083	-	(85,000)	2,377,083	89,583
Unamortized Premium	14,047	-	(811)	13,236	(811)
Total	<u>2,714,130</u>	<u>-</u>	<u>(89,311)</u>	<u>2,624,819</u>	<u>92,272</u>
Other Liabilities:					
Customer Deposits	<u>118,588</u>	<u>4,129</u>	<u>-</u>	<u>122,717</u>	<u>18,408</u>
Long-Term Liabilities	<u>\$ 2,832,718</u>	<u>\$ 4,129</u>	<u>\$ (89,311)</u>	<u>\$ 2,747,536</u>	<u>\$ 110,680</u>

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

**NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)**

Changes in long-term obligations during the year ended December 31, 2015 were:

	Balance 12/31/2014	Additions	Reductions	Balance 12/31/2015	Due Within One Year
<b>Bonds and notes payable:</b>					
Revenue Bonds Payable	\$ 241,500	\$ -	\$ (3,500)	\$ 238,000	\$ 3,500
Note Payable	2,546,666	-	(84,583)	2,462,083	85,000
Unamortized Premium	14,857	-	(810)	14,047	(810)
<b>Total</b>	<b>2,803,023</b>	<b>-</b>	<b>(88,893)</b>	<b>2,714,130</b>	<b>87,690</b>
<b>Other Liabilities:</b>					
Customer Deposits	113,998	4,590	-	118,588	17,788
<b>Long-Term Liabilities</b>	<b>\$ 2,917,021</b>	<b>\$ 4,590</b>	<b>\$ (88,893)</b>	<b>\$ 2,832,718</b>	<b>\$ 105,478</b>

Information relating to the outstanding bond and notes is summarized below:

Date of Issue	Interest Rate	Original Amount of Each Issue	Bonds and Notes Payable Outstanding	
			December 31, 2016	2015
2012 Bond Series A	2.75%	\$ 245,000	\$ 234,500	\$ 238,000
2012 Note Series A	2.0 - 3.625	2,680,000	2,377,083	2,462,083

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

**Revenue Fund**

All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

**Bond Reserve Fund**

This fund shall receive \$1,605, a monthly rental, until an amount of \$204,300 is reached. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. This account was fully funded at December 31, 2016 and 2015. The bond and interest redemption funds and bond reserve fund are maintained together in a single bank account and certificates of deposit.

**Operation and Maintenance Fund**

This fund receives, on a monthly basis, 90 percent of the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Reserve Fund.

(Continue next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)Depreciation Fund

This fund receives, on a monthly basis, 10 percent of the remaining balance in the Revenue Fund after the above transfers have been made and the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment. This account is funded until it reaches a balance of \$25,500. This account was fully funded at December 31, 2016 and 2015.

Full-time employees of the District are entitled to paid vacation and paid personal days depending upon length of service. Personal days must be used within the period earned. Vacation days may be carried forward.

NOTE 6 - RETIREMENT PLANPlan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial reports that include financial statements and required supplementary information. CERS' report may be obtained at [www.kyret.ky.gov](http://www.kyret.ky.gov).

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Contributions

For the calendar year ended December 31, 2016, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The District's contractually required contribution rate for the calendar year ended December 31, 2016, was 12.42 percent of creditable compensation from January 1 to June 30 and 13.95 percent of creditable compensation from July 1 to December 31. The District's contractually required contribution rate for the calendar year ended December 31, 2015, was 12.75 percent of creditable compensation from January 1 to June 30 and 12.42 percent of creditable compensation from July 1 to December 31. Contributions to the pension plan for the years ended December 31, 2016 and 2015, from the District were \$56,739 and \$51,625.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 6 – RETIREMENT PLAN (CONTINUED)

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

At December 31, 2016, the District reported a liability of \$625,744 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 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, actuarially determined. At June 30, 2016, the District's proportion was 0.012709 percent, which was an increase of .001427 percent from its proportion measured as of June 30, 2015.

For the years ended December 31, 2016 and 2015, the District recognized pension expense of \$36,107 and \$35,956. At December 31, 2016, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 2,732	\$ -
Changes in actuarial assumptions	33,149	-
Difference between projected and actual investment earnings	58,826	-
Changes in proportion and proportionate share of contributions	27,571	-
	<u>\$ 122,278</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 30,428
2018	30,428
2019	30,428
2020	19,229
2021	11,766
	<u>\$ 122,278</u>

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

Inflation	3.25 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015NOTE 6 – RETIREMENT PLAN (CONTINUED)

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 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. 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 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 for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the 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 timeframe. 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	2%	-0.25%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015NOTE 6 – RETIREMENT PLAN (CONTINUED)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 7.5 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

Pension Plan Fiduciary Net Position

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	<u>779,777</u>	<u>625,744</u>	<u>493,705</u>

CERS also provides post-retirement health care coverage as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	10	0%
15-19	7	25%
10-14	5	50%
4-9	2	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.

NOTE 7 - MAJOR SUPPLIERS

The District purchases water for resale from approximately six suppliers with Hodgenville Waterworks, Bardstown Water District and Green River Valley Water District accounting for approximately ninety percent of the water supplied. Inability to obtain water from any of these suppliers could have a materially adverse effect on the District.

NOTE 8 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2016 and 2015:

Source	2016	2015
Tap fees	\$ 23,167	\$ 28,400

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015NOTE 9 – 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; and natural disasters. The District was insured for workers' compensation, general liability coverage under a retrospectively rated commercial policy.



**REQUIRED SUPPLEMENTARY INFORMATION**

**LARUE COUNTY WATER DISTRICT NO. 1****SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY**

December 31, 2016

Last 10 Years \*

	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.012709%	0.012228%
Proportionate share of the net pension liability	\$ 625,744	\$ 525,737
Covered - employee payroll	\$ 317,292	\$ 302,077
Proportionate share of the net pension liability as percentage of covered payroll	197.2%	174.0%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%

\* Calendar year 2015 was the first year of implementation, therefore, only two years are shown.

**LARUE COUNTY WATER DISTRICT NO. 1****SCHEDULE OF CONTRIBUTIONS TO CERS**

December 31, 2016

Last 10 Years \*

	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 36,107	\$ 35,956
Contribution in relation to the actuarially determined contributions	<u>36,107</u>	<u>35,956</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 317,292	\$ 302,077
Contributions as a percentage of covered employee payroll	11.38%	11.90%

\* Calendar year 2015 was the first year of implementation, therefore, only two years are shown.

LARUE COUNTY WATER DISTRICT NO. 1  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2016

*Changes of benefit terms.* There were no changes in benefit terms.

*Changes of assumptions.* There were no changes in assumptions.

## **SUPPLEMENTARY INFORMATION**

LARUE COUNTY WATER DISTRICT NO. 1SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTSDECEMBER 31, 2016

	2012 SERIES A BOND PAYABLE		2012 SERIES F NOTE PAYABLE	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2017	3,500	6,449	89,583	89,892
2018	4,000	6,353	90,000	87,006
2019	4,000	6,243	94,583	84,036
2020	4,000	6,133	99,583	81,786
2021	4,000	6,023	100,000	77,662
2022	4,500	5,912	104,583	73,362
2023	4,500	5,789	109,583	70,188
2024	4,500	5,665	114,583	66,857
2025	5,000	5,541	119,583	63,362
2026	5,000	5,404	124,583	58,340
2027	5,000	5,266	129,583	52,983
2028	5,500	5,129	139,167	47,411
2029	5,500	4,978	107,917	41,427
2030	5,500	4,826	114,167	36,786
2031	6,000	4,675	119,583	31,877
2032	6,000	4,428	120,000	26,735
2033	6,000	4,345	124,583	22,537
2034	6,500	4,180	129,583	18,127
2035	6,500	4,001	134,583	13,378
2036	7,000	3,823	89,167	8,278
2037	7,000	3,630	39,167	4,792
2038	7,500	3,438	39,586	3,255
2039	7,500	3,231	40,000	1,701
2040	7,500	3,025	3,333	131
2041	8,000	2,819		
2042	8,000	2,599		
2043	8,500	2,379		
2044	9,000	2,145		
2045	9,000	1,898		
2046	9,500	1,650		
2047	9,500	1,389		
2048	10,000	1,128		
2049	10,500	853		
2050	10,500	564		
2051	10,000	275		
	<u>\$ 234,500</u>	<u>\$ 136,186</u>	<u>\$ 2,377,083</u>	<u>\$ 1,061,909</u>

LARUE COUNTY WATER DISTRICT NO. 1SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED	
	DECEMBER 31,	
	<u>2016</u>	<u>2015</u>
Retirement expense	\$ 56,739	\$ 51,625
Insurance - health	51,541	49,637
Auto expense	37,221	28,780
Office supplies and postage	25,539	28,488
Payroll expense	22,017	21,080
Other general and administrative	28,206	31,161
Insurance - general liability	17,446	12,303
Professional fees	12,640	12,575
Insurance - workmens' compensation	15,564	13,887
Commissioners' salaries	11,700	10,800
Regulatory commission expense & other taxes	5,486	7,517
Training	2,503	1,105
	<u>\$ 286,602</u>	<u>\$ 268,958</u>

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2016

WATER COMMISSIONERS

John Detre – Chairman  
Pat Eastridge – Secretary/Treasurer  
Bobby Garrison – Member

ATTORNEY

Stoll, Keenon, Ogden, PLLC

APPROVING BOND COUNSEL

Rubin & Hays - Louisville, Kentucky

CALENDAR YEAR

January 1 to December 31



## **INTERNAL CONTROL AND FISCAL COMPLIANCE**



CHRIS R. CARTER, CPA  
ANN M. FISHER, CPA  
SCOTT KISSELBAUGH, CPA  
PHILIP A. LOGSDON, CPA  
BRIAN S. WOOSLEY, CPA

STILES, CARTER & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS  
WWW.SCACPA.COM

AMERICAN INSTITUTE OF CPAS  
KENTUCKY SOCIETY OF CPAS

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

Board of Commissioners  
Larue County Water District No. 1  
Buffalo, 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 Larue County Water District No. 1, as of and for the year ended December 31, 2016, and have issued our report thereon dated June 5, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Larue County Water District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Larue County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Larue County Water District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiencies described in items 2016-001, 2016-002, and 2016-003 in the accompanying schedule of findings and responses to be material weaknesses.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as items 2016-001, 2016-002 and 2016-003 that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Larue County Water District No. 1's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of 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*.

## **Larue County Water District No.1's Response to Findings**

Larue County Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Larue County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

This report is intended 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 District'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.

*Stiles, Carter + Associates*

Certified Public Accountants  
Elizabethtown, Kentucky  
June 5, 2017

LARUE COUNTY WATER DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

**REFERENCE NUMBER 2016-001 PREPARATION OF FINANCIAL STATEMENTS**

**Criteria:** The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

**Condition:** The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

**Cause:** The District has financial personnel with limited financial reporting experience.

**Effect:** The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

**Recommendation:** We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

**Management Response:** The District has made strides in this area and is continuously working to obtain the goal of current personnel being able to adequately prepare the financial statements.

**REFERENCE NUMBER 2016-002 FINANCIAL STATEMENT PRESENTATION**

**Criteria:** The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

**Condition:** As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

**Cause:** The District has a limited number of personnel with limited financial reporting experience.

**Effect:** The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

**Recommendation:** We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

**Management Response:** It would be beneficial to have financial training.

**REFERENCE NUMBER 2016-003 SEGREGATION OF DUTIES**

**Criteria:** The District's management is responsible for establishing and maintaining proper segregation of duties. In order to maintain proper segregation of duties District requires two signatures on checks for certain disbursements. Due to the limited number of personnel the District requires the signature of a commissioner on said checks along with the District's management.

**Condition:** As part of the audit we noted there were blank checks signed by a commissioner kept at the District. The checks contained only the signature of the commissioner.

**Cause:** The District had blank checks signed by commissioner so that items could be paid in the commissioner's absence.

**Effect:** The signature policy was not followed which could result in unapproved disbursements.

**Recommendation:** We recommend that checks be signed by the commissioner after the date; amount and vendor fields have been completed. Additionally, the invoice that supports the check should be present with the check at the time the commissioner signs the check.

**Management Response:** Management will bring this item before the board for further review.