

PENDLETON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2016 and 2015

PENDLETON COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2016 and 2015

Table of Contents

	<u>Pages</u>
Board of Commissioners	1
Independent Auditor's Report	2-4
Management's Discussion and Analysis	5-9
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12
Notes to the Financial Statements	13-25
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan	26
Schedules of Operations, Maintenance and Administrative Expenses	27
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

PENDLETON COUNTY WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2016 and 2015

L.R. Faulkner, Jr., Chairman

Dave Boden, Vice-Chairman

Brent Moore, Treasurer

Larry "Rick" Adams, Secretary

Joe Strange, Commissioner

Of Counsel

Jeff Dean, Pendleton County Attorney

Administration

Ricky King, General Manager



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

Independent Auditor's Report

To the Board of Commissioners
Pendleton County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Pendleton County Water District (District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 financial position of the business-type activities of Pendleton County Water District as of December 31, 2016 and 2015 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5–9 and pension disclosure information on page 26 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 audits 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Pendleton County Water District's basic financial statements. The supplementary schedules on page 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules 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 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2017 on our consideration of Pendleton County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pendleton County Water District's internal control over financial reporting and compliance.

Van Gorder, Walker + Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
April 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2016. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$8,393,886 (net position). This was an increase of \$106,707 in comparison to an increase of \$63,110 in the prior year. This increase between years is primarily due to \$40,000 in capital grants received from the county for line extension projects that the District agreed to construct during 2016.
- At the end of the current year, unrestricted net position was \$1,061,136.

USING THIS ANNUAL REPORT

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statements No. 34 through 70. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

Basis of Accounting

The District's financial statements are prepared using the accrual basis of accounting.

The Statements of Net Position and Revenues, Expenses and Changes in Net Position

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of providing potable water to those customers.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2016 and 2015.

**Table 1
Net Position**

	<u>2016</u>	<u>Restated 2015</u>
Current Assets	\$ 412,566	\$ 553,482
Restricted Assets	1,597,995	1,460,470
Capital Assets	8,642,862	8,575,917
Deferred Outflows of Resources – Pension Contribution	<u>110,086</u>	<u>79,636</u>
Total Assets and Deferred Outflows of Resources	<u>10,763,509</u>	<u>10,669,505</u>
Current Liabilities	112,948	90,488
Liabilities Payable from Restricted Assets	142,063	140,114
Long Term Liabilities	2,075,682	2,100,750
Deferred Inflows of Resources – Pension Performance	<u>38,930</u>	<u>50,974</u>
Total Liabilities and Deferred Inflows of Resources	<u>2,369,623</u>	<u>2,382,326</u>
Net Position:		
Net investment in Capital Assets	7,067,187	6,917,472
Restricted	265,563	261,758
Unrestricted	<u>1,061,136</u>	<u>1,107,949</u>
Total Net Position	<u>\$ 8,393,886</u>	<u>\$ 8,287,179</u>

The District's net position for 2016 increased 1.3% or \$106,707 as compared to a 0.8% or \$63,110 increase in the previous year. This increase is primarily attributed to \$40,000 in capital grants received from the county that were used to defray the construction costs of two small line extensions during 2016.

The largest portion of the District's net position (84.2%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position (3.2%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

SUMMARY OF CHANGES IN NET POSITION

Revenues

Operating revenues increased \$25,775 or 1.9% from 2015 to 2016. This is primarily due to increased usage by residential customers in response to dryer weather during 2016.

Water Costs

Water costs increased \$23,597 or 5.8% from 2015 to 2016. This is due to the increased water sales discussed above.

Operation and Maintenance Expense

Operation and maintenance expense increased \$41,581 or 7.1% from 2015 to 2016. This increase was primarily due to an increase in employee salaries, employee benefits and maintenance expenses.

Capital Contributions

Capital contributions increased \$42,201 or 119.9% from 2015 to 2016. The large increase was primarily from two grants received from the County totaling \$40,000. These funds were used to defray the cost of two small line extension projects during 2016.

Prior Period Adjustment

During 2015, Government Accounting Standards Board Statement No. 68 required the District to report its portion of the estimated unfunded pension liability associated with its participation in the County employee Retirement System (CERS). The prior period adjustment of \$17,781 reported in the statement of changes in net position as well as the restatement of 2015 statements, accounts for a correction of the estimated net pension liability reported at June 30, 2015 by CERS as well as corrections in the calculation of deferred inflows and outflows by the District for both 2014 and 2015. See note 9 to the financial statements for a more complete explanation of this unfunded pension liability and the related deferred inflows and outflows.

The following schedule compares the revenues and expenses for the current year and the previous year.

Table 2
Changes in Net Position

	<u>2016</u>	<u>Restated 2015</u>
Operating Revenues:		
Water Sales	\$1,323,763	\$1,301,931
Forfeited Discounts	23,152	25,075
Miscellaneous Services Revenues	23,804	17,938
Total Operating Revenues	<u>1,370,719</u>	<u>1,344,944</u>
Operating Expenses:		
Water Purchased	431,125	407,528
Operation and Maintenance Expense	625,812	584,231
Depreciation	222,652	223,660
Total Operating Expenses	<u>1,279,589</u>	<u>1,215,419</u>
Net Operating Profit	<u>91,130</u>	<u>129,525</u>
Non-Operating Income (Expenses)		
Investment Income	7,696	7,799
Gain (Loss) on Disposition of Assets	(865)	(11,552)
Net Effect on Change in Pension Expense	(18,208)	(3,867)
Interest on Long-Term Debt	(52,716)	(58,310)
Debt Issue Costs	-	(37,953)
Amortization of Bond Premium	2,270	2,269
Net Non-Operating Expenses	<u>(61,823)</u>	<u>(101,614)</u>
Income/ (Loss) Before Capital Contributions	29,307	27,911
Capital Contributions	77,400	35,199
Change in Net Position	<u>106,707</u>	<u>63,110</u>
Net Position – January 1	8,287,179	8,241,850
Prior Period Adjustment	<u>-</u>	<u>(17,781)</u>
Net Position – December 31	<u>\$8,393,886</u>	<u>\$ 8,287,179</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2016, the District had \$8,642,862 invested in capital assets including land, buildings, water systems, equipment, and vehicles, as reflected in the following schedule. This represents a net increase (additions less retirements and depreciation) of \$66,945. During 2016 the cost of new equipment and the construction cost of two small line extension projects exceeded depreciation expense for the year.

Table 3 Summarizes the District's capital assets at the end of 2016 as compared to 2015.

**Table 3
Capital Assets at Year End**

	<u>2016</u>	<u>2015</u>
Land	\$ 63,176	\$ 63,176
Transmission Lines & Equipment	12,605,548	12,351,999
Furniture & Fixtures	55,024	55,605
Machinery & Equipment	371,514	324,675
Buildings & Improvements	335,092	335,092
Construction in Progress	<u>9,099</u>	<u>20,590</u>
Subtotal	13,439,453	13,151,137
Accumulated Depreciation	<u>(4,796,591)</u>	<u>(4,575,220)</u>
Total Capital Assets	<u>\$ 8,642,862</u>	<u>\$ 8,575,917</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2016 compared to 2015.

**Table 4
Outstanding Debt at Year End**

	<u>2016</u>	<u>2015</u>
Bond Payable Obligations	\$ 1,549,500	\$1,622,000
Capitalized Lease	<u>10,000</u>	<u>18,000</u>
Total	<u>\$ 1,559,500</u>	<u>\$1,640,000</u>

At year-end, the District had \$1,559,500 in outstanding bonds and leases compared to \$1,640,000 last year. This is a decrease of \$80,500 or 4.9%. This decrease is due to scheduled debt repayment by the District.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2017 projects net income to decline by approximately \$35,000. This is primarily due to the fact that the District has budgeted to add another employee to their payroll in 2017. In addition, capital contributions are expected to decline because the District expects the amount of grant money received from the county to decline and they do not expect to generate additional tap on fees from line extension projects. Instead the District plans to repaint an existing water tower and to replace a line that is creating a bottleneck in the system in order to improve water distribution to its existing customers.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 331 Highway 330 West, Falmouth, Kentucky 41040.

Rick King, General Manager
Pendleton County Water District

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2016 and 2015
--

	<u>2016</u>	<u>Restated 2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 197,030	\$ 352,392
Accounts receivable	162,814	147,159
Inventories	29,228	30,450
Prepays	22,847	23,090
Accrued interest income	647	391
Total Current Assets	<u>412,566</u>	<u>553,482</u>
Restricted Assets		
Improvement, repair, and replacement	1,261,855	1,123,917
Depreciation reserve	190,648	189,506
Bond sinking fund	106,700	112,750
Customer deposits	38,792	34,297
Total Restricted Assets	<u>1,597,995</u>	<u>1,460,470</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	13,439,453	13,151,137
Less: accumulated depreciation	(4,796,591)	(4,575,220)
Total Capital Assets, net of depreciation	<u>8,642,862</u>	<u>8,575,917</u>
TOTAL ASSETS	<u>10,653,423</u>	<u>10,589,869</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflows related to pensions	110,086	79,636
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>10,763,509</u>	<u>10,669,505</u>
LIABILITIES		
Current Liabilities		
Accounts payable	68,815	53,036
Accrued and withheld liabilities	40,733	37,452
Deferred income	3,400	-
Total Current Liabilities	<u>112,948</u>	<u>90,488</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds and lease obligations - current portion	83,500	80,500
Customer deposits	36,728	37,124
Accrued interest payable	21,835	22,490
Total Current Liabilities Payable From Restricted Assets	<u>142,063</u>	<u>140,114</u>
Long-Term Liabilities		
Bonds	1,476,000	1,549,500
Capital lease payable	-	10,000
Unamortized premium on debt	16,175	18,445
Net unfunded pension liability	583,507	522,805
Total Long-Term Liabilities	<u>2,075,682</u>	<u>2,100,750</u>
TOTAL LIABILITIES	<u>2,330,693</u>	<u>2,331,352</u>
DEFERRED INFLOW OF RESOURCES		
Deferred inflows related to pensions	38,930	50,974
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>2,369,623</u>	<u>2,382,326</u>
NET POSITION		
Net investment in capital assets	7,067,187	6,917,472
Restricted	265,563	261,758
Unrestricted	1,061,136	1,107,949
TOTAL NET POSITION	<u>\$ 8,393,886</u>	<u>\$ 8,287,179</u>

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

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ending December 31, 2016 and 2015
--

	<u>2016</u>	<i>Restated</i> <u>2015</u>
OPERATING REVENUES		
Water revenue	\$ 1,346,915	\$ 1,327,006
Other service revenues	23,804	17,938
TOTAL OPERATING REVENUES	<u>1,370,719</u>	<u>1,344,944</u>
OPERATING EXPENSES		
Water purchased	431,125	407,528
Operations, maintenance, and administrative expenses	625,812	584,231
Depreciation	222,652	223,660
TOTAL OPERATING EXPENSES	<u>1,279,589</u>	<u>1,215,419</u>
OPERATING PROFIT	<u>91,130</u>	<u>129,525</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	7,696	7,799
Loss on disposal of assets	(865)	(11,552)
Net effect of change in pension expense	(18,208)	(3,867)
Interest on long-term obligations	(52,716)	(58,310)
Debt issuance cost	-	(37,953)
Amortization of bond premium	2,270	2,269
NET NON-OPERATING EXPENSES	<u>(61,823)</u>	<u>(101,614)</u>
NET INCOME	29,307	27,911
CAPITAL GRANTS AND CONTRIBUTIONS	<u>77,400</u>	<u>35,199</u>
CHANGE IN NET POSITION	106,707	63,110
NET POSITION, JANUARY 1	8,287,179	8,241,850
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(17,781)</u>
NET POSITION, DECEMBER 31	<u>\$ 8,393,886</u>	<u>\$ 8,287,179</u>

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

PENDLETON COUNTY WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,355,064	\$ 1,347,996
Paid to suppliers for goods and services	(628,794)	(608,479)
Paid to or on behalf of employees for services	(407,618)	(388,257)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>318,652</u>	<u>351,260</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(290,463)	(74,741)
Interest received on investments	7,440	7,702
NET CASH USED BY INVESTING ACTIVITIES	<u>(283,023)</u>	<u>(67,039)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long term debt	(80,500)	(1,222,500)
Interest paid on long term debt	(53,370)	(57,672)
Proceeds from loan financing, net of issuance costs	-	1,172,479
Contributed capital received	40,800	35,199
Grant proceeds	40,000	-
Increase in restricted cash	(137,525)	(37,069)
(Decrease) increase in customer deposits	(396)	1,343
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(190,991)</u>	<u>(108,220)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(155,362)	176,001
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>352,392</u>	<u>176,391</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 197,030</u>	<u>\$ 352,392</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 91,130	\$ 129,525
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	222,652	223,660
Change in operating assets and liabilities		
Decrease (Increase) in receivables	(15,655)	3,052
Decrease (Increase) in inventories	1,222	2,826
Decrease (Increase) in prepaid assets	243	(610)
Increase (Decrease) in accounts payable	15,779	(6,587)
Increase (Decrease) in other accrued liabilities	3,281	(606)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 318,652</u>	<u>\$ 351,260</u>
SUPPLEMENTAL INFORMATION		
Interest expensed	<u>\$ (52,716)</u>	<u>\$ (58,310)</u>

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

**PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Pendleton County Water District (District) is a water utility, which provides service to residential and commercial customers in Pendleton County, Kentucky. The District was created by the Pendleton County Fiscal Court under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”) in 1958. The District’s current service area includes parts of Pendleton, Campbell, and Grant Counties.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, 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 measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

Cash Equivalents

For purposes of the statements of net position and statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government’s website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015

Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Distribution System, Building, and Equipment

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of the Statements of Revenues, Expenses, and Changes in Net Position.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress". When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors.

During 2016 and 2015 these contributions consisted of the following:

<u>Source</u>	<u>2016</u>	<u>2015</u>
Tap in fees and construction costs paid by new customers	\$ 37,400	\$ 35,199
Total	<u>\$ 37,400</u>	<u>\$ 35,199</u>

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the Statement of position as "Cash and Cash Equivalents" and "Restricted Assets". At December 31, 2016 and 2015, the balances were \$197,030 and \$352,392, respectively. The District has amounts on deposit with three banks in excess of FDIC insured amounts. The banks have pledged collateral to cover such excess amounts. Funds in excess of current expenses or obligations of the District are invested in certificates of deposit issued by, or other interest bearing accounts of, banks that are insured by the Federal Deposit Insurance Corporation.

Effective January 1, 1998, investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value.

The District's investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2016. The categories are described as follows:

Category 1 - Insured and registered, with securities held by the entity or its agent in the entity's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name;

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value/ Carrying Cost</u>	<u>Cost</u>
Deposits	\$ 898,792	\$ -	\$ -	\$ 898,792	\$ 898,792
Investments	<u>813,548</u>	<u>-</u>	<u>82,685</u>	<u>896,233</u>	<u>896,233</u>
Total	<u>\$ 1,712,340</u>	<u>\$ -</u>	<u>\$ 82,685</u>	<u>\$ 1,795,025</u>	<u>\$ 1,795,025</u>

In accordance with GASB 40, the District has \$82,685 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa. The market risk on these investments is negligible.

NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted

**PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015**

portion of net position consists of all other assets, net of related liabilities, not included in the above categories. Included in the restricted portion of net position at December 31,

	2016	2015
Depreciation Reserve Fund	\$ 188,640	\$ 184,200
Bond Sinking Fund	76,923	77,558
Total Restricted Net Position	\$ 265,563	\$ 261,758

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment, including infrastructure assets, are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

The property, plant and equipment accounts are summarized as follows:

Asset Type	Balance at December 31, 2015	Additions	Retirements	Balance at December 31, 2016
Land	\$ 63,176	\$ -	\$ -	\$ 63,176
Buildings and improvements	335,092	-	-	335,092
Distribution reservoirs and standpipes	786,103	-	-	786,103
Furniture and fixtures	55,605	715	(1,296)	55,024
Hydrants	191,565	6,961	-	198,526
Meter system and installation	569,488	28,444	-	597,932
Other plant and misc. equipment	114,272	44,500	-	158,772
Pumping equipment	443,367	5,357	-	448,724
Services	747,367	13,696	-	761,063
Tools and equipment	25,843	730	(850)	25,723
Transmission mains	9,614,109	199,090	-	9,813,199
Transportation equipment	184,560	2,460	-	187,020
Construction in progress	20,590	223,004	(234,495)	9,099
Subtotal	13,151,137	524,957	(236,641)	13,439,453
Accumulated depreciation	(4,575,220)	(222,652)	1,281	(4,796,591)
Capital Assets, net	\$ 8,575,917	\$ 302,305	\$ (235,360)	\$ 8,642,862

NOTE 5 – BONDED INDEBTEDNESS

Water Works System Revenue Bonds, U.S. Department of Agriculture 1977

On May 26, 1978, the District sold \$263,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. All bonds mature on December 1st of each year beginning in 1980, ending in 2017. Interest is payable on June 1st

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015

and December 1st and principal is due in annual installments on December 1st through 2017. The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2017	5.00%	\$ 15,000	\$ 750	\$ 15,750
Totals		\$ 15,000	\$ 750	\$ 15,750

Water Works System Revenue Bonds, U.S. Department of Agriculture 2010

On July 30, 2010, the District sold \$220,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. Principal payments are due annually on January 1 of each year beginning in 2012 and ending in 2049. Interest is payable January 1 and July 1 of each year. The remaining debt service is as follows:

<u>Year</u>	<u>Rates</u>	<u>Amount</u>	<u>Amount</u>	<u>Debt Service</u>
2017	3.25%	\$ 3,500	\$ 6,589	\$ 10,089
2018	3.25%	3,500	6,476	9,976
2019	3.25%	3,500	6,362	9,862
2020	3.25%	4,000	6,240	10,240
2021	3.25%	4,000	6,110	10,110
2022-2026	3.25%	21,500	28,527	50,027
2027-2031	3.25%	26,000	24,668	50,668
2032-2036	3.25%	30,500	20,110	50,610
2037-2041	3.25%	37,000	14,625	51,625
2042-2046	3.25%	43,500	8,117	51,617
2047-2049	3.25%	27,500	1,291	28,791
Totals		\$ 204,500	\$ 129,115	\$ 333,615

Kentucky Rural Water Finance Corporation

On March 27, 2013, The District entered into a loan agreement with the Kentucky Rural Water Finance Corporation (KRWFC) for a promissory note in the amount of \$215,000. Concurrent with this loan agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2013C which refunded the District's Series 2001A bonds. The water systems represent collateral on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on January 1 beginning in 2014 and ending January 1, 2024. Interest is payable January 1 and July 1 of each year. These bonds were issued at a premium of \$24,225 which is being amortized over the life of the bonds. As of December 31, 2016, \$2,253 of the premium was amortized. The District achieved substantial interest cost savings under this program.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	4.300%	\$ 20,000	\$ 6,385	\$ 26,385
2018	4.300%	20,000	5,525	25,525
2019	4.300%	20,000	4,665	24,665
2020	4.300%	25,000	3,697	28,697
2021	4.300%	25,000	2,623	27,623
2022-2024	4.3%-4.8%	45,000	3,202	48,202
Totals		<u>\$ 155,000</u>	<u>\$ 26,097</u>	<u>\$ 181,097</u>

Kentucky Rural Water Finance Corporation

On February 19, 2015, The District entered into an assistance agreement with the Kentucky Rural Water Finance Corporation for a loan in the amount of \$1,210,000. Concurrent with this agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2015B which refunded the District's outstanding Series 1997 Bonds and Series 2004 Bonds. The water systems represent collateral on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on February 1 beginning in 2016 and ending February 1, 2041. Interest is payable February 1 and August 1 of each year. These bonds were issued at a premium of \$432 which is being amortized over the life of the bonds. The District achieves substantial interest cost savings under this program. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	2.250%	\$ 35,000	\$ 36,881	\$ 71,881
2018	2.250%	35,000	36,094	71,094
2019	2.250%	40,000	35,250	75,250
2020	2.250%	40,000	34,350	74,350
2021	2.250%	40,000	33,450	73,450
2022-2025	3.250%	220,000	147,450	367,450
2027-2031	3.250%	270,000	108,125	378,125
2032-2036	3.250%-3.500%	330,000	58,538	388,538
2037-2041	3.500%-3.625%	165,000	11,362	176,362
Totals		<u>\$ 1,175,000</u>	<u>\$ 501,500</u>	<u>\$ 1,676,500</u>

NOTE 6 – CAPITAL LEASE

In 1997, the District signed a capital sublease agreement for its office and storage facilities. The leased property of \$137,718 is included in buildings and improvements on the fixed asset summary in Note 4 and represents collateral on the lease. Amortization of the lease is included in depreciation expense. Accumulated amortization amounted to \$67,712 and \$64,269 at December 31, 2016 and 2015, respectively.

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015

Future minimum lease payments are as follows:

Year	Rent Amount	Interest Amount	Total Lease Payment
2017	\$ 10,000	\$ 53	\$ 10,053
Totals	\$ 10,000	\$ 53	\$ 10,053

NOTE 7 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness are as follows:

Debt Instrument	Balance at December 31, 2015	Additions	Retirements	Balance at December 31, 2016
Revenue bonds of 1977	\$ 29,000	\$ -	\$ (14,000)	\$ 15,000
Revenue bonds of 2010	208,000	-	(3,500)	204,500
Kentucky Rural Water Finance Corp.	175,000	-	(20,000)	155,000
Kentucky Rural Water Finance Corp.	1,210,000	-	(35,000)	1,175,000
Capitalized lease	18,000	-	(8,000)	10,000
Subtotal	1,640,000	\$ -	\$ (80,500)	1,559,500
Less: current portion of long-term debt	(80,500)			(83,500)
Total Long-Term Indebtedness	\$ 1,559,500			\$ 1,476,000

NOTE 8 – OPERATING LEASE

The District entered into an operating lease for a new copier, beginning May 2013 and continuing through April 2018. Payments under this lease were \$2,217 in 2016. Future minimum lease payments are as follows:

Year	Lease Payments
2017	\$ 2,217
2018	554
Totals	\$ 2,771

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM

The District's eligible employees are covered by the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description-Employees are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015

has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided- CERS provides retirement and death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years of service.

For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced Retirement	27 years service or 65 years old
	Reduced Retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation Date	September 1, 2008 - December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation Date	After December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced Retirement	Not available

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

Contributions-Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Contributions

The District contributed 17.06% (from January – June of 2016) of which 12.42% was for the pension fund and 4.64% was for the health insurance fund, and 18.68% (from July – December of 2016) of which 13.95% was for the pension fund and 4.73% was for the health insurance fund,

PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015

of the non-hazardous duty employee's compensation during the year ended December 31, 2016. The District made all required contributions for the Plan pension obligation for the fiscal year ended December 31, 2016 in the amount of \$52,816, of which \$38,998 was for the pension fund and \$13,818 was for the health insurance fund.

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

At December 31, 2016, the District reported a liability of \$583,507 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 proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the District's employer allocation proportion was 0.011851% of the total CERS non-hazardous duty. The District's proportion was a decrease of .000308% from its proportion measured as of June 30, 2015. For the year ended December 31, 2016, the District recognized a pension expense of \$52,816.

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 2,547	\$ -
Net difference between projected and actual earnings on plan investments	54,856	-
Changes of assumptions	30,911	-
Changes in proportion and differences between District's contributions and proportionate share of contributions	-	38,930
District's contributions subsequent to the measurement date	<u>21,772</u>	<u>-</u>
Total	\$ <u>110,086</u>	\$ <u>38,930</u>

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions, and changes in proportion and differences between the District's contributions and proportionate share of contributions, all of which are deferred over the weighted average years of working lifetime of all plan participants (active and inactive) which is determined to be 3.41 and 3.51 years for 2016 and 2015, respectively. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5 year period. Deferred outflows related to the District's contributions subsequent to the measurement date are not amortized.

**PENDLETON COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016 and 2015**

Deferred Outflows and Inflows of Resources

In FY 2016, \$88,314 was recognized as a deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, and d) contributions subsequent to the measurement date. In FY 2016, \$38,930 was recognized as a deferred inflow of resources resulting from changes in proportion share.

The District's contributions subsequent to the measurement date of \$38,451 will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral Amortization
2017	\$ 9,066
2018	8,160
2019	19,971
2020	12,187
	<u>\$ 49,384</u>

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:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan expense, including inflation

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 (1 year set-back 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 the margin will be reviewed when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. 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

**PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015**

considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The 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.

Changes of Assumptions

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% 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.

**PENDLETON COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016 and 2015**

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

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability 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.

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%, 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%) or 1-percentage-point higher (8.5%) than the current rate:

	Discount Rate	District's Proportionate Share of Net Pension Liability
1% decrease	6.5%	\$ 727,144
Current discount rate	7.5%	583,507
1% increase	8.5%	460,381

Plan Fiduciary Net Position

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

<p>PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015</p>
--

NOTE 10 – ECONOMIC DEPENDENCY/CREDIT RISK

Pendleton County Water District is a government agency operating with one office in Falmouth, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Pendleton, Campbell, and Grant Counties in Kentucky.

NOTE 11 – CONCENTRATIONS

The District has agreements to purchase water from the City of Falmouth, Kentucky and the Northern Kentucky Water District through the year 2047. In June 2001, the District signed an agreement to purchase water on an "as needed" basis from the City of Williamstown, Kentucky. This contract is in force until June 2021.

NOTE 12 – RESTATEMENT OF PRIOR YEAR STATEMENTS

The District has recorded an adjustment to the Beginning Net Position of (\$17,781) at December 31, 2015. This adjustment accounts for the estimated net pension liability at June 30, 2015, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events through April 20, 2017, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2016 through April 20, 2017 to disclose.

PENDLETON COUNTY WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN-NON-HAZARDOUS
Last Ten Fiscal Years

	Schedule of the District's Proportionate Share of the Net Pension Liability									
	County Employees' Retirement System (CERS)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.01185%	0.012160%								
Proportionate share of the net pension liability (asset)	\$ 583,507	\$ 522,805								
Covered employee payroll in year of measurement	271,095	284,737								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	215.24%	183.61%								
Plan fiduciary net position as a percentage of total pension liability	55.50%	59.97%								
	Schedule of the District's Contributions									
	County Employees' Retirement System (CERS)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 33,670	\$ 36,304	\$ 44,559							
Actual contribution	33,670	36,304	44,559							
Contribution deficiency (excess)	-	-	-							
Covered employee payroll	271,095	284,737	324,301							
Contributions as a percentage of covered employee payroll	12.42%	12.75%	13.74%							

Notes to Required Supplementary Information
for the Year Ended December 31, 2016

The net pension liability as of December 31, 2016, is based on the June 30, 2016, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District's contributions and proportionate share of contributions are detailed in NOTE 9 in the Notes to the Financial Statements.

PENDLETON COUNTY WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2016 and 2015

	<u>0</u>	<u>0</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 282,605	\$ 266,126
Employee pension and benefits	104,294	97,525
Advertising	815	1,174
Bad debt expense	3,647	3,198
Commissioners' fees	24,000	24,000
Contractual services - accounting	21,760	21,040
Contractual services - other	29,589	25,251
Insurance - general and vehicle	20,177	20,017
Insurance - other	518	573
Insurance - workers' compensation	4,897	5,782
Maintenance	33,431	24,580
Materials and supplies	20,055	19,490
Miscellaneous	2,866	1,858
Purchased power	17,582	17,712
Regulatory commission	2,610	2,605
Rental of equipment	2,334	2,392
Taxes	22,791	21,326
Transportation	15,656	12,741
Utilities	16,185	16,841
	<u> </u>	<u> </u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 625,812</u>	<u>\$ 584,231</u>



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KYCPA
Licensed in Kentucky & Ohio

**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
Pendleton County Water District**

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 Pendleton County Water District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements which collectively comprise Pendleton County Water District's basic financial statements and have issued our report thereon dated April 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Pendleton County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pendleton County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pendleton 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below, that we consider significant deficiencies.



Lack of Segregation of Duties

Condition: We noted that due to the size of the District and financial considerations, some of the executing and recording of transactions are performed by the same person.

Criteria: Segregation of duties is a necessary part of any system of internal control. Segregating the processes of authorizing, executing and recording transactions is essential.

Effect: Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account. The District has determined that the cost of mitigation is not justified when compared to the risk of the related transactions.

Recommendation: Due to the size of the District and other financial considerations, internal controls should be implemented, to the highest appropriate level, to segregate the duties of the personnel. Controls should then be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pendleton County Water District'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 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 audits, 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.

Van Gorder, Walker + Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
April 20, 2017