

CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
With Independent Auditor's Report

FOR THE YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners
Crittenden-Livingston County Water District
620 East Main Street
Salem, KY 42078

We have audited the accompanying financial statements of the Crittenden-Livingston County Water District, as of and for the year ended December 31, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Crittenden-Livingston County Water District, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 2-5 and pages 24-28 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 opinions on the financial statements that collectively comprise the Crittenden-Livingston County Water District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The financial statements 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.

The introductory and statistical sections have 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 them.

Cornman, Bryan, Watts & Elliott, CPAs, PLLC

Grand Rivers, KY
September 26, 2016

CRITTENDEN LIVINGSTON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

The Crittenden Livingston Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2015. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources by \$7,727,972 at December 31, 2015. Of this amount \$975,242 is restricted and \$7,154,416 is invested in capital assets net of the related debt, leaving unrestricted net position of \$(401,686).

The District's net position decreased for the year by \$99,234.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the Crittenden Livingston Water District.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net position – The statement of net position presents the District's financial position at December 31, the end of the District's fiscal year. The Statement reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Net position is displayed in three components: net investment in capital assets, restricted (distinguished between major categories of restrictions) and unrestricted. The statement of net position can be found on pages 6-7.

Statement of revenues, expenses and changes in net position – The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 8 of this report.

Statement of cash flows – The statement of cash flows, which presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year, can be found on page 9.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 10-23 of this report.

Required Supplementary Information – Required supplementary information can be found on pages 24-27 of this report.

Supplementary Information – Supplementary information can be found on page 28 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the year ending December 31, 2015. The objective of this statement is to improve the financial reporting by state and local governmental pension plans by allocating the surplus or deficit of the state-wide plan based on the individual member responsibility. In the District's case, net pension liability is reported of \$689,178 to reflect the District's share of the state-wide deficit.

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$7,727,972 at December 31, 2015. Beginning net position was reduced due to the change in accounting standards referenced above. Net position at December 31, 2014 was originally reported as \$8,409,827, but was reduced by \$582,621 to a restated balance of \$7,827,206.

For the current year, the District reported a net loss of \$99,234. The most significant component of this loss was an increase in salary expense from the prior year of \$105,628. Of that amount, pension expense increased \$60,517 primarily due to current year allocations of the state-wide deficit.

During 2015, the District's net capital assets decreased \$544,110 and total long-term liabilities increased by \$342,599. Included in the increase of long-term liabilities is the net pension liability of \$689,178. Unrestricted net position decreased \$705,893, from \$304,207 at December 31, 2014 to (\$401,686) at December 31, 2015. Again, the most significant cause for change is the accounting change explained previously.

The District noted a minor dip in operating revenue of \$57,766 from the 2014 revenue of \$2,345,511. Operating expenses increased \$177,717 from the 2014 amount of \$1,747,527. Interest expense decreased \$14,722 from 2014 as the total repayment of borrowed money was \$488,239. The District did not have any new borrowing for 2015.

Overall, the District's financial position decreased during 2015.

A recap of the yearly financial information is as follows:

| | Business-type Activities | |
|--|--------------------------|---------------------|
| | 2015 | 2014 |
| Assets: | | |
| Current assets | \$ 1,145,831 | \$ 1,117,424 |
| Capital assets | 19,477,958 | 20,022,068 |
| Noncurrent assets | 319,306 | 284,507 |
| Total assets | <u>20,943,095</u> | <u>21,423,999</u> |
| Deferred outflows of resources related to pensions | <u>116,968</u> | <u>-</u> |
| Liabilities: | | |
| Long-term liabilities | 12,452,239 | 12,340,516 |
| Other liabilities | 798,881 | 673,856 |
| Total liabilities | <u>13,251,120</u> | <u>13,014,372</u> |
| Deferred inflows of resources related to pensions | <u>80,971</u> | <u>-</u> |
| Net position: | | |
| Net investment in capital assets | 7,154,416 | 7,210,285 |
| Restricted | 975,242 | 895,335 |
| Unrestricted | (401,686) | 304,207 |
| Total net position | <u>\$ 7,727,972</u> | <u>\$ 8,409,827</u> |
| Operating income | \$ 2,287,745 | \$ 2,345,511 |
| Operating expenses | <u>1,925,244</u> | <u>1,747,527</u> |
| Operating income | <u>362,501</u> | <u>597,984</u> |
| Interest revenue | 629 | 774 |
| Interest expense | (488,614) | (503,336) |
| Tap on fees | 26,250 | 47,350 |
| Gain (loss) on disposal of capital asset | - | 7,363 |
| Change in net position | <u>(99,234)</u> | <u>150,135</u> |
| Net position, beginning of year, restated | <u>7,827,206</u> | <u>8,259,692</u> |
| Net position, end of year | <u>\$ 7,727,972</u> | <u>\$ 8,409,827</u> |

A portion of the District's net position (\$7,154,416) reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, less any related outstanding debt used to acquire those assets. The district uses these assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities.

BUDGETARY HIGHLIGHTS

The original budget and the final budget passed by the board anticipated operating revenues of \$2,468,000 and operating expenses of \$1,945,280. Actual operating revenues were under-budget \$180,255 actual operating expenses were under-budget by \$20,036 for a positive variance in

operating income of \$160,219. Actual non-operating revenues and expenses were under-budget \$17,764 for a total negative budget variance of \$142,455.

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2015 was \$19,477,958. During the year ended December 31, 2015, the District capitalized new meters, purchased land and upgraded installed lines.

| | <u>2015</u> | <u>2014</u> |
|--------------------------------|----------------------|----------------------|
| Land | \$ 66,469 | \$ 66,469 |
| Machinery | 28,265,071 | 28,150,434 |
| Buildings | 58,828 | 58,828 |
| Furniture & fixtures | 44,999 | 44,999 |
| Less: Accumulated depreciation | (8,957,409) | (8,298,662) |
| Total capital assets | <u>\$ 19,477,958</u> | <u>\$ 20,022,068</u> |

LONG-TERM DEBT

The District's long-term debt at December 31, 2015 was \$11,763,063. A schedule of the District's long-term debt at December 31, 2015 follows:

| | <u>2015</u> | <u>2014</u> |
|------------------------------|----------------------|----------------------|
| Revenue Bond Series 1995A | \$ 631,000 | \$ 651,000 |
| Revenue Bond Series 2000A | 1,605,000 | 1,642,000 |
| Revenue Bond Series 2008C | 1,150,000 | 1,365,000 |
| 2013 Flexible Term Financing | 3,100,000 | 3,485,000 |
| 2013 Flexible Term Financing | 1,980,000 | 2,070,000 |
| Reoffering Premium | 213,486 | - |
| Total bond and notes payable | <u>8,679,486</u> | <u>9,213,000</u> |
| KIA Loan | 568,260 | 717,952 |
| KIA Loan - Radio-read meters | 255,733 | 281,405 |
| Total Notes | <u>823,993</u> | <u>999,357</u> |
| KACO Lease | 2,259,584 | 2,369,167 |
| Total long term debt | <u>\$ 11,763,063</u> | <u>\$ 12,581,524</u> |

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Crittenden Livingston Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Ronnie Slayden, Superintendent, Crittenden Livingston Water District, 620 East Main Street, Salem, KY 42078.

Crittenden Livingston Water District
Statement of Net Position - Proprietary Fund (continued)
December 31, 2015

Liabilities

Current liabilities:

| | |
|---------------------------------|---------------|
| Payable from restricted assets: | 35,899 |
| Accounts payable trade | 100 |
| Construction payable | 10,858 |
| Payroll liabilities | <u>46,857</u> |

Total current liabilities payable from unrestricted assets

Payable from restricted assets:

| | |
|--------------------------------------|---------|
| Current maturities of long-term debt | 560,481 |
| Tenant deposits payable | 179,183 |
| Interest payable | 12,360 |

Total current liabilities payable from restricted assets

752,024

Total current liabilities

798,881

Noncurrent liabilities:

| | |
|-----------------------|-----------|
| Notes payable | 823,993 |
| Lease payable | 2,259,583 |
| Bonds payable | 8,679,485 |
| Net pension liability | 689,178 |

Total noncurrent liabilities

12,452,239

Total liabilities

13,251,120

Deferred Inflows of Resources

| | |
|--------------------------------------|--------|
| Deferred inflows related to pensions | 80,971 |
|--------------------------------------|--------|

Total deferred inflows of resources

80,971

Net Position

| | |
|----------------------------------|-----------|
| Net investment in capital assets | 7,154,416 |
| Restricted for debt service | 975,242 |
| Unrestricted | (401,686) |

Total net position

\$ 7,727,972

Crittenden Livingston Water District
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
Year Ended December 31, 2015

| | | |
|---|----|----------------------------|
| Operating Revenues | | |
| Charges for services | \$ | 2,235,749 |
| Other income | | 51,996 |
| Total operating revenue | | <u>2,287,745</u> |
| Operating Expenses | | |
| Salary expenses | | 706,371 |
| Water treatment expenses | | 243,660 |
| Maintenance expenses | | 148,969 |
| General operating expenses | | 167,497 |
| Depreciation | | 658,747 |
| Total operating expenses | | <u>1,925,244</u> |
| Operating income | | <u>362,501</u> |
| Nonoperating Revenue (Expenses) | | |
| Interest revenue | | 629 |
| Interest expense | | (488,614) |
| Total nonoperating revenue (expenses) | | <u>(487,985)</u> |
| Capital Contributions | | |
| Tap-on fees | | <u>26,250</u> |
| Change in net position | | <u>(99,234)</u> |
| Net position, beginning of year, before restatement | \$ | 8,409,827 |
| Cumulative effect of change in accounting principal | \$ | <u>(582,621)</u> |
| Net position, end of year | | <u><u>\$ 7,727,972</u></u> |

See accompanying notes and auditor's report.

Crittenden Livingston Water District
Statement of Cash Flows-Proprietary Fund
Year Ended December 31, 2015

| | |
|--|----------------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 2,307,803 |
| Cash payments to suppliers for goods and services | (566,049) |
| Cash payments to employees for services | <u>(643,980)</u> |
| Net cash provided (used) by operating activities | <u>1,097,774</u> |
| Cash flows from capital and related financing activities: | |
| Tap-on fees | 26,250 |
| Acquisition and construction of property, plant and equipment | (114,638) |
| Principal payments on long-term debt | (505,014) |
| Interest paid on long-term debt | <u>(425,258)</u> |
| Net cash provided (used) for capital and related financing activities | <u>(1,018,660)</u> |
| Cash flows from investing activities: | |
| Interest on investments | <u>629</u> |
| Net cash provided (used) by investing activities | <u>629</u> |
| Net increase (decrease) in cash and cash equivalents | 79,743 |
| Cash and cash equivalents, beginning of year | <u>1,053,195</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 1,132,938</u></u> |
| Reconciliation to Statement of Net Position: | |
| Cash and cash equivalents - current | \$ 131,423 |
| Restricted cash - current | 682,209 |
| Restricted cash - noncurrent | <u>319,306</u> |
| | <u><u>\$ 1,132,938</u></u> |
| Reconciliation of Operating Income to Net Cash Provided by Operations: | |
| Operating income | \$ 362,501 |
| Adjustments-operating activities | |
| Depreciation and amortization | 658,747 |
| (Increase) decrease in: | |
| Accounts receivable | 17,837 |
| Other receivable | 1 |
| Prepaid expenses | (1,300) |
| Deferred outflows | <u>(78,082)</u> |
| Increase (decrease) in: | |
| Accounts payable | (4,623) |
| Customer deposits | 2,220 |
| Accrued liabilities | 121,911 |
| Deferred inflows | <u>18,562</u> |
| Net cash provided by operating activities | <u><u>\$ 1,097,774</u></u> |

Crittenden Livingston Water District
Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity - The Crittenden Livingston Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Salem, Kentucky and primarily serves the Crittenden and Livingston County, Kentucky area.

Principles determining scope of reporting entity - The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed equally by the County Judge Executives of Crittenden and Livingston counties, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of accounting - The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the Government Accounting Standards Board. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Accounts receivable - The direct write-off method was used for recording un-collectible accounts. No allowance for un-collectible accounts was deemed to be needed. The District grants credit to customers, substantially all of whom are residents of Crittenden and Livingston counties.

Utility plant - The utility plant is carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following estimated useful lives:

| | |
|------------------------------------|-----------------------------------|
| Buildings – 10 to 50 years | Pumping Equipment – 5 to 10 years |
| Transmission Lines – 5 to 50 years | Meters – 5 to 10 years |
| Plant Equipment – 5 to 10 years | Office Equipment – 5 to 10 years |
| Vehicles – 5 years | |

Crittenden Livingston Water District
Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Use of restricted/unrestricted net position – When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the District's policy is to consider restricted net position to have been depleted before unrestricted net position is applied.

Budget – The District adopts an annual budget prepared under the basis of accounting utilized in the financial statements.

Cash and cash equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

Deferred Outflows and Inflows of Resources – Effective for the fiscal year ending December 31, 2015, the District adopted provisions of Governmental Accounting Standards Board (GASB), Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflow of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

In addition to liabilities, assets and net position, the statement of net position/balance sheet will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows and inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an expenditure or revenue, respectively until that time. The District has items that arise under the modified accrual basis of accounting that qualifies for reporting in these categories. The Statement of Net Position reports deferred outflows and inflows related to pension requirements.

Pension - For purposes of measuring the net pension liability deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System in the Kentucky Retirement Systems (KRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the KRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the County Employees Retirement System. Investments are reported as fair value.

2 RESTRICTED CASH AND INVESTMENTS

Crittenden Livingston Water Sinking Fund - The sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds. The bond ordinances require that the amount deposited each month equals one-sixth of the next succeeding interest requirement and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2015 the balance of the Sinking Fund was \$167,830.

Depreciation Reserve - The bond ordinances require Crittenden Livingston Water District to make monthly contributions to this fund after observing the priority of deposits into the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or

Crittenden Livingston Water District
Notes to the Financial Statements

2 RESTRICTED CASH AND INVESTMENTS (continued)

extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the 1995 ordinance the District is to make \$1,872 monthly deposits until the Depreciation fund reaches \$224,640 and shall be maintained throughout the life of the bonds. The 1995 bond ordinance amends all previous ordinances. Under the 2000 ordinance the District is to make \$2,115 monthly deposits over the life of the loan in addition to the requirement of all previous ordinances. At December 31, 2015 the balance of the Depreciation Reserve Fund was \$306,946.

Crittenden Livingston Tenant Deposit Fund - This account is set aside to account for customer deposits. At December 31, 2015 the restricted balance of the Crittenden Livingston Tenant Deposit Fund was \$12,360.

Construction Funds – Occasionally, Crittenden Livingston Water District is involved in various on-going construction projects. A bank account has been established for each project referred to as "Phases". Monies deposited to the construction accounts is reserved for construction of the appropriate phase.

Regions Sinking Funds – The District maintains sinking accounts with Regions Bank for payments on the 2008 bond issuance and the 2013 flexible term financing. A monthly amount is transferred from the Rural Water Sinking Fund to meet the annual principal and interest obligations related to the previously mentioned financing. The balance held at Regions Bank for these purposes at December 31, 2015 was \$500,467.

Health Reimbursement Account – The District, in an effort to offset rising employee health insurance costs, has established a program, whereby, employees participate in a high-deductible healthcare plan with deductible amounts being paid by the District. At the beginning of each plan year the amount of each employees deductible is set aside in a separate restricted bank account. As employees incur health care costs, amounts up to the per person deductible are reimbursed to the eligible employee from this account. Any excess left in the account at the end of the plan year is used to fund the maximum amount to be set aside for the following year. As of December 31, 2015, the balance in the Health Reimbursement Account was \$13,912.

3 DEPOSITS

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could effect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the district, includes disclosure of the following risks:

- Risks related to custodial credit risk of deposits;
- Deposit and investment policies related to those risks.

Crittenden Livingston Water District
Notes to the Financial Statements

3 DEPOSITS (continued)

Custodial Credit Risk is the risk that in the event of a failure of a depository institution, the district will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2015, the carrying amount of District's deposits was \$1,132,938 and the bank balance of \$1,136,954 was categorized as follows:

| | | |
|--|----|------------------|
| Insured by FDIC | \$ | 500,000 |
| Uninsured and collateralized with securities held by the pledging financial institution in the district's name | | 636,954 |
| Total | \$ | <u>1,136,954</u> |

The District holds cash deposits in the amount of \$500,467 in the Regions Trust Cash Sweep III (RTCS). RTCS is a bank deposit account offered through Regions Institutional Services. The RTCS does not directly invest in securities. It is a deposit account that is collateralized by government securities. Collateral may include:

- Interest bearing obligations of the U.S. Government,
- Senior debt obligations of any U.S. Government Agency,
- And/or municipal securities with an underlying rating of A or better.

RTCS is FDIC Insured up to \$250,000. Deposit account amounts in excess of \$250,000 are secured by perfected liens on Regions Bank's securities in an amount not less than 105% of the total excess deposits. In the event of a default, the collateral reverts to the Collateral Agent to be distributed to the account owners. RTCS deposits are identified as "cash" on client statements; there are no market value fluctuations.

The district does not have deposit and investment policies. However Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

- (a) Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
- (b) Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
- (c) Savings and loan associations insured by the U. S. government;
- (d) Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U. S. government;
- (e) Deposit accounts with banking institutions;
- (f) State treasurer investment pool.

Crittenden Livingston Water District
Notes to the Financial Statements

4 CAPITAL ASSETS

Capital asset activity for Crittenden Livingston Water District for the year ended December 31, 2015 was as follows:

| | Balance January 1, 2015 | Additions | Deletions | Balance December 31, 2015 |
|---------------------------------------|----------------------------|---------------------|-------------|---------------------------------|
| Capital assets being depreciated: | | | | |
| Lake and river intake | \$ 888,411 | \$ - | \$ - | \$ 888,411 |
| Pumping equipment | 287,111 | 20,125 | - | 307,236 |
| Water treatment structure | 6,900 | - | - | 6,900 |
| Water treatment equipment | 4,402,784 | - | - | 4,402,784 |
| Transportation equipment | 139,835 | - | - | 139,835 |
| Distribution reservoirs and pipe | 637,711 | 8,338 | - | 646,049 |
| Small equipment | 16,724 | - | - | 16,724 |
| Transmission and distribution mains | 14,107,903 | 8,279 | - | 14,116,182 |
| Lab equipment | 6,231 | - | - | 6,231 |
| Power operated equipment | 65,632 | - | - | 65,632 |
| Services | 6,012,089 | - | - | 6,012,089 |
| Meters and installation | 1,232,806 | 41,895 | - | 1,274,701 |
| Communication equipment | 124,256 | - | - | 124,256 |
| Hydrants | 228,940 | - | - | 228,940 |
| Office furniture and fixtures | 45,000 | - | - | 45,000 |
| Office building | 51,928 | - | - | 51,928 |
| Subtotal | 28,254,261 | 78,637 | - | 28,332,898 |
| Less accumulated depreciation: | | | | |
| Lake and river intake | (140,083) | (17,768) | - | (157,851) |
| Pumping equipment | (81,709) | (18,277) | - | (99,986) |
| Water treatment structure | (1,898) | (690) | - | (2,588) |
| Water treatment equipment | (1,450,678) | (88,129) | - | (1,538,807) |
| Transportation equipment | (80,448) | (14,847) | - | (95,295) |
| Distribution reservoirs and pipe | (214,395) | (12,816) | - | (227,211) |
| Small equipment | (14,793) | (186) | - | (14,979) |
| Transmission and distribution mains | (4,082,068) | (282,751) | - | (4,364,819) |
| Lab equipment | (4,610) | (108) | - | (4,718) |
| Power operated equipment | (65,632) | - | - | (65,632) |
| Services | (1,569,885) | (171,551) | - | (1,741,436) |
| Meters and installation | (422,381) | (38,772) | - | (461,153) |
| Communication equipment | (21,914) | (6,287) | - | (28,201) |
| Hydrants | (78,667) | (4,793) | - | (83,460) |
| Office furniture and fixtures | (41,638) | (376) | - | (42,014) |
| Office building | (27,863) | (1,396) | - | (29,259) |
| Subtotal | (8,298,662) | (658,747) | - | (8,957,409) |
| Capital assets being depreciated, net | 19,955,599 | (580,110) | - | 19,375,489 |
| Capital assets not being depreciated: | | | | |
| Land | 66,469 | 36,000 | - | 102,469 |
| Capital assets, net | \$ 20,022,068 | \$ (544,110) | \$ - | \$ 19,477,958 |

Depreciation charged to income was \$658,747 during the year ending December 31, 2015.

Crittenden Livingston Water District
Notes to the Financial Statements

5 LONG-TERM DEBT

Bonds Payable

The Crittenden Livingston Water District Waterworks Revenue Bonds of 1995 (Series A) were issued in the amount of \$884,000 to finance the cost of the Phase 5 construction project (system additions). The bond maturity dates are January 1, 1998-2035. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series A) in the amount of \$2,000,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

In May 2008 Crittenden Livingston Water District issued Waterworks Revenue Bonds of 2008 (Series C) in the amount of \$1,920,000 to current refund revenue bonds 1998, 1991, 1994 & 1996 issuances. The current refunding met the requirement of an in-substance debt defeasance and the revenue bonds were removed from the District's financial statements.

The bond maturity dates are January 1, 2009-2030. This issue was purchased by Morgan, Keegan and Company, Inc. Interest rates are shown below:

| <u>Year</u> | <u>Rate</u> | <u>Year</u> | <u>Rate</u> |
|-----------------|-------------|-----------------|-------------|
| January 1, 2009 | 2.350% | January 1, 2022 | 4.175% |
| January 1, 2010 | 2.550% | January 1, 2023 | 4.175% |
| January 1, 2011 | 3.050% | January 1, 2024 | 4.300% |
| January 1, 2012 | 3.050% | January 1, 2025 | 4.300% |
| January 1, 2013 | 3.300% | January 1, 2026 | 4.300% |
| January 1, 2014 | 3.300% | January 1, 2027 | 4.425% |
| January 1, 2015 | 3.550% | January 1, 2028 | 4.425% |
| January 1, 2016 | 3.550% | January 1, 2029 | 4.550% |
| January 1, 2017 | 4.050% | January 1, 2030 | 4.550% |
| January 1, 2018 | 4.050% | | |
| January 1, 2019 | 4.050% | | |
| January 1, 2020 | 4.050% | | |
| January 1, 2021 | 4.050% | | |

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

In March 2013, the District entered into a flexible term finance program with Kentucky Rural Water to refinance the 2004 D Kentucky Rural Water Finance Corporation Bonds, with an interest rate of 3.120%-4.620%, and the 2000 B, with an interest rate of 4.75%, and 2000 C Rural Development Bonds with an interest rate of 4.5%. The total loan amount of \$5,780,000 is divided into two separate loans. The amount of \$3,690,000 is a 15 year loan with a variable interest rate of 2.30% to 4.80%. Principal repayment began in 2014 and the loan will be paid out in 2029. The remaining loan amount of \$2,090,000 is a 27 year loan with a variable interest rate of 2.30% to 4.80%. Principal repayment began in 2014 and the loan will be paid out in 2040.

The \$2,090,000 current refunding decreased the total debt service until maturity in the amount of \$439,222. This resulted in an average annual cash savings of \$15,687.

Crittenden Livingston Water District
Notes to the Financial Statements

5 LONG-TERM DEBT (continued)

The \$3,690,000 current refunding decreased the total debt service until maturity in the amount of \$546,472. This resulted in an average annual cash savings of \$34,154.

The schedule of bonds payable and the maturity schedule follows:

| | Balance January 1, 2015 | Proceeds | Repayments | Balance December 31, 2015 | Current Amount Due |
|-----------------------------------|----------------------------|-------------|-------------------|------------------------------|-----------------------|
| Crittenden Livingston | | | | | |
| Waterworks revenue bonds: | | | | | |
| 1995 Issue (Series A) | \$ 651,000 | \$ - | \$ - | \$ 651,000 | \$ 20,000 |
| 2000 Issue (Series A) | 1,642,000 | - | - | 1,642,000 | 37,000 |
| 2008 Bonds | 1,365,000 | - | 105,000 | 1,260,000 | 110,000 |
| 2013 Flexible Term Financing | 3,485,000 | - | 185,000 | 3,300,000 | 200,000 |
| 2013 Flexible Term Financing | 2,070,000 | - | 40,000 | 2,030,000 | 50,000 |
| Subtotal | <u>9,213,000</u> | <u>-</u> | <u>330,000</u> | <u>8,883,000</u> | <u>417,000</u> |
| Reoffering premium 2013 Financing | 230,259 | - | 16,774 | 213,485 | - |
| Total bonds | <u>\$ 9,443,259</u> | <u>\$ -</u> | <u>\$ 346,774</u> | <u>\$ 9,096,485</u> | <u>\$ 417,000</u> |

| Year ending December 31 | Principal | Interest |
|----------------------------|---------------------|---------------------|
| 2016 | \$ 417,000 | \$ 355,244 |
| 2017 | 420,000 | 338,864 |
| 2018 | 432,000 | 320,660 |
| 2019 | 425,000 | 302,333 |
| 2020 | 443,000 | 283,784 |
| 2021-2025 | 2,427,000 | 1,102,623 |
| 2026-2030 | 2,202,000 | 613,535 |
| 2031-2035 | 1,078,000 | 319,350 |
| 2036-2040 | 1,039,000 | 103,348 |
| | <u>\$ 8,883,000</u> | <u>\$ 3,739,741</u> |

Notes Payable

Kentucky Infrastructure Authority (KIA) note dated November 1, 2001, at 1.8%, payable in 40 semiannual payments including principal and interest. Loan funds advanced were used on an interim basis to finance the construction of extensions, additions, and improvements to the existing waterworks system.

In August 2011, Crittenden-Livingston Water District was approved for a loan to replace all existing meters with meters utilizing radio-read technology. The total cost of the project is not to exceed \$300,000 and will be financed by the Kentucky Infrastructure Authority under a loan bearing interest at 2%.

Crittenden Livingston Water District
Notes to the Financial Statements

5 LONG-TERM DEBT (continued)

The schedule of notes payable and the maturity schedule follows:

| | Balance January 1, 2015 | Proceeds | Repayments | Balance December 31, 2015 | Current Amount Due |
|-----------------------|----------------------------|----------|---------------|------------------------------|-----------------------|
| Crittenden Livingston | | | | | |
| Notes payable: | | | | | |
| KIA | \$ 717,951 | \$ - | \$ 74,175 | \$ 643,776 | \$ 75,516 |
| KIA-Radio-read meters | 281,405 | - | 12,708 | 268,697 | 12,964 |
| Total notes payable | <u>999,356</u> | <u>-</u> | <u>86,883</u> | <u>912,473</u> | <u>88,480</u> |

| <u>Year ending</u> <u>December 31</u> | <u>Principal</u> | <u>Interest</u> |
|--|-------------------|-------------------|
| 2016 | \$ 88,480 | \$ 17,090 |
| 2017 | 90,106 | 15,438 |
| 2018 | 91,762 | 13,756 |
| 2019 | 93,449 | 12,042 |
| 2020 | 95,166 | 10,297 |
| 2021-2025 | 326,830 | 26,518 |
| 2026-2030 | 82,336 | 9,934 |
| 2031-2035 | 44,344 | 1,473 |
| | <u>\$ 912,473</u> | <u>\$ 106,548</u> |

Leases

The Fiscal Court of Livingston County, Kentucky, in an Ordinance passed and adopted on August 24, 2010, authorized a plan to payoff a short term note of the Crittenden Livingston Water District in the amount of \$2,500,000 with funds provided to the County by the Kentucky Association of Counties Finance Corporation through a financing agreement between the county and KACO. The amount of \$2,560,000 carries a variable interest rate of 4.15% - 5.00% and matures on February 1, 2039.

| | Balance January 1, 2015 | Proceeds | Repayments | Balance December 31, 2015 | Current Amount Due |
|---------------------------------------|----------------------------|-------------|------------------|------------------------------|-----------------------|
| Crittenden Livingston Water System | \$ 2,369,167 | \$ - | \$ 54,583 | \$ 2,314,584 | \$ 55,001 |
| Total | <u>\$ 2,369,167</u> | <u>\$ -</u> | <u>\$ 54,583</u> | <u>\$ 2,314,584</u> | <u>\$ 55,001</u> |

Crittenden Livingston Water District
Notes to the Financial Statements

5 LONG-TERM DEBT (continued)

Annual debt service requirements for notes payable to maturity are as follows:

| <u>Year ending</u> <u>December 31</u> | <u>Principal</u> | <u>Interest</u> |
|--|---------------------|---------------------|
| 2016 | \$ 55,000 | \$ 116,019 |
| 2017 | 59,583 | 113,544 |
| 2018 | 64,583 | 110,863 |
| 2019 | 65,000 | 107,956 |
| 2020 | 69,583 | 105,031 |
| 2021-2025 | 388,750 | 475,977 |
| 2026-2030 | 497,917 | 373,985 |
| 2031-2035 | 632,500 | 231,697 |
| 2036-2039 | 481,668 | 53,886 |
| | <u>\$ 2,314,584</u> | <u>\$ 1,688,958</u> |

Leased equipment under capital lease in capital assets at June 30, 2015, included the following:

| | |
|--------------------------------|---------------------|
| Facilities and equipment | \$ 3,455,798 |
| Less: Accumulated depreciation | 888,634 |
| Net | <u>\$ 2,567,164</u> |

Amortization of leased facilities and equipment is included in depreciation expense.

6 PENSION PLAN

General Information about the Pension Plan

Plan description. Employees with membership in the Kentucky Retirement Systems (KRS) are provided with pensions through the County Employee Retirement System (CERS), a cost sharing multiple-employer pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Chapter 61. The KRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the KRS. The Kentucky Department of Revenue, an agency in the legislative branch of state government, administers the plans of the KRS. The KRS issues a publically available financial report that can be obtained at www.kyret.ky.gov.

Benefits provided. Kentucky Revised Statute Chapter 61 established the benefit terms and can be amended only by the Kentucky General Assembly.

Members of the CERS (nonhazardous), participating prior to September 1, 2008 (Tier 1), are eligible to retire with an unreduced benefit at age 65 or any age with over 27 years of service credit. Benefits are determined by a formula using the member's five highest annual compensations and the member's years of service. A reduced early retirement benefit is available at age 65 with at least 25 years, but less than 27 years of service credit, or at age 55 with 5 years of service credit. Members of the CERS (nonhazardous), participating after September 1, 2008 but before January 1, 2014 (Tier 2), are eligible to retire with an unreduced benefit at age 57 if age plus service credits equal 87 years at retirement or after age 65 with 5 years of service credit. Benefits are determined by a formula using the member's last five consecutive years compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 with at least 10 years of service credit. Members of the CERS (nonhazardous), participating after January 1, 2014 (Tier 3), are eligible to retire with an unreduced benefit at age 57 if age plus service credits equals 87 years

Crittenden Livingston Water District
Notes to the Financial Statements

6 PENSION PLAN (continued)

at retirement or after age 65 with 5 years of service credit.

Service related disability benefits are provided for all three tiers regardless of length of service. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustment (COLAs) after retirement. The COLA has increased annually by 1.5% since July 1, 2003. A member who leaves employment may withdraw their employee contribution, plus any accumulated interest.

Contributions. Contributions for members are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. CERS covered employees are required to contribute 5% of gross pay and all employees that began participating after September 1, 2008 are required to contribute an additional 1% for health coverage. The agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the CERS are required to be paid. Employer contributions by the Crittenden Livingston County Water District, Kentucky for the year ended June 30, 2015 to the CERS were \$47,683 per the schedule on page 24. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability. At June 30, 2015, the Crittenden Livingston Water District reported a liability of \$689,178 for its proportionate share of 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 asset was determined by an actuarial valuation as of that date. The Library's proportion of the net pension liability was based on the Library's contributions to the pension plan during the year ended June 30, 2015, relative to the contributions of all members for the year ended June 30, 2015. At the June 30, 2015 measurement date, District's proportion was 0.016029%. No update procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2014, using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service cost), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of July 1, 2014, are shown for CERS submitted on March 16, 2015.

Pension expense. For the year ended June 30, 2015, the District recognized a pension expense of \$136,902.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Crittenden Livingston Water District
Notes to the Financial Statements

6 PENSION PLAN (continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 5,727 | \$ - |
| Change of assumptions | 69,496 | - |
| Net difference between projected and actual earnings on plan investments | 6,178 | 49,927 |
| Changes in portion and differences between employer contributions and proportionate share of contributions | - | 31,044 |
| Employer contributions subsequent to the Measurement Date | <u>35,567</u> | <u>-</u> |
| | <u>\$ 116,968</u> | <u>\$ 80,971</u> |

The amount shown for "Employer contributions subsequent to the Measurement Date" will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

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

| <u>Year Ended December 31,</u> | | |
|--------------------------------|----|----------|
| 2016 | \$ | (18,691) |
| 2017 | | (18,691) |
| 2018 | | (18,691) |
| 2019 | | (18,691) |
| 2020 | \$ | (6,207) |

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

| <u>Year Ended December 31,</u> | | |
|--------------------------------|----|--------|
| 2016 | \$ | 16,280 |
| 2017 | | 16,280 |
| 2018 | | 16,280 |
| 2019 | | 16,280 |
| 2020 | \$ | 16,281 |

In the tables above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Crittenden Livingston Water District
Notes to the Financial Statements

6 PENSION PLAN (continued)

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

| | |
|---------------------------|---|
| Inflation | 3.25% |
| Salary increases | 4.00%, average, including inflation |
| Investment rate of return | 7.50 %, net of pension plan investment 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 (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 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 System. 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 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.

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|-------------------|--|
| Combined Equity | 44% | 5.40% |
| Combined Fixed Income | 19% | 1.50% |
| Real Return (Diversified Inflation Strategies) | 10% | 3.50% |
| Real Estate | 5% | 4.50% |
| Absolute (Diversified Hedge Funds) | 10% | 4.25% |
| Private Equity | 10% | 8.50% |
| Cash Equivalent | 2% | -0.25% |
| Total | <u>100%</u> | |

Crittenden Livingston Water District
Notes to the Financial Statements

6 PENSION PLAN (continued)

Discount rate. The discount rate used to measure the total pension liability was 7.50%. The discount rate determination does not use a municipal bond rate.

Projected cash flows. The projection of the cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Projected future benefit payments for all current plan members were projected through 2117.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate. The following presents the net pension liability of the District, calculated using the discount rate of percent, as well as what the system's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate for non-hazardous:

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|------------------------|--------------------------|------------------------|
| Crittenden Livingston Water District's net pension liability | \$ 879,812 | \$ 689,178 | \$ 525,904 |

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

7 COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

8 INTEREST EXPENSE

The District incurred interest cost in 2015 of \$488,614. The entire amount has been recognized as a current operating expense.

9 NEW PRONOUNCEMENTS

Effective for the fiscal year ending December 31, 2015, the District adopted the provisions of Governmental Accounting Standards Board (GASB), Statement No. 68, Accounting and Financial Reporting for Pensions. The objective of this statement is to improve financial reporting by state and local governmental pension plans. In addition, it requires the liability of the employers and non-employer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payment to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, this statement requires additional changes to Required Supplementary Information, among other extensive changes.

Effective for the fiscal year ending December 31, 2015, the District adopted the provision of Governmental Accounting Standards Board (GASB), Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date. The objective of this statement is to

Crittenden Livingston Water District
Notes to Financial Statements

9 NEW PRONOUNCEMENTS (continued)

address an issue regarding application provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning pension liability.

10 PRIOR PERIOD ADJUSTMENT

Changes in accounting principle

The net position was restated to reflect implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (which amends GASB Statement No. 27), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 changed how governments' measure and report long-term obligations and annual costs associated with the pension benefits they provide. GASB Statement No. 71 addressed the issue of contributions made to defined benefit pension plans after the measurement date for the year in which GASB Statement No. 68 is implemented. Net position is restated as follows:

| | |
|---|---------------------|
| Net Position as Reported at December 31, 2014 | \$ 8,409,827 |
| Adjustment related to GASB 68 | (582,621) |
| Net Position, restated | <u>\$ 7,827,206</u> |

11 SUBSEQUENT EVENTS

On July 13 2015, litigation was brought against Crittenden-Livingston County Water District. The litigation involves a water purchase contract dispute with another water district that is a customer. Currently, the other water district is contracted to purchase 3,000,000 gallons a month for 40 years from Crittenden-Livingston County Water District. Although the contract between the water districts began on January 24, 2000, the plaintiff contends the contract is void. If the water purchase contract is ultimately ruled void and if no water is purchased by this customer then Crittenden-Livingston County Water District could have a reduction of \$92,880 of current minimum annual gross revenue or \$53,640 of current minimum net operating income. The likelihood of any loss of revenue, or net operating income, concerning this water contract dispute is unknown at this time.

Crittenden Livingston Water District
 Schedule of Proportionate Share of Net Pension Liability-County Employee Retirement System
 Last ten fiscal years

| | |
|---|------------------|
| Total net pension liability (asset) for Employee Retirement System | \$ 4,299,525,565 |
| Crittenden Livingston Water District's proportion of the net pension liability | 0.016029% |
| Crittenden Livingston Water District's proportionate share of the net pension liability | \$ 689,178 |
| Crittenden Livingston Water District's covered-employee payroll | \$ 375,904 |
| Crittenden Livingston Water District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 183.34% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.97% |

*The amounts presented were determined as of June 30, 2015

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Purpose is to provide information that serves as a surrogate for the funding progress of the plan.

Crittenden Livingston Water District
 Schedule of Contributions-County Employee Retirement System
 Last ten fiscal years

| | <u>2014</u> | <u>2015</u> |
|--|-------------|-------------|
| Actuarially Determined Contribution (ADC) | \$ 74,682 | \$ 47,585 |
| Contribution in relation to the actuarially determined contribution | 74,682 | 47,585 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| Crittenden Livingston Water District's covered-employee payroll | \$ 393,724 | \$ 375,904 |
| Contributions as a percentage of Crittenden Livingston Water District's covered-employee payroll | 18.97% | 12.66% |

This is a 10-year schedule. However, the information in this schedule is not required to be presented retrospectively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Crittenden Livingston Water District
Notes to the Required Supplementary Information

Notes Related to Schedule of the Crittenden Livingston Water District Proportionate Share of the Net Pension Liability- County Employee Retirement System of the KRS

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

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

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

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

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

2015

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Crittenden Livingston Water District
Notes to the Required Supplementary Information

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

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

Crittenden Livingston Water District
Statement of Revenues, Expenses and Changes in Net Position-Proprietary Fund
Budget and Actual
For the Year Ended December 31, 2015

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|---------------------|---------------------|---|
| Operating revenues: | | | | |
| Charges for services | \$ 2,468,000 | \$ 2,468,000 | \$ 2,235,749 | \$ (232,251) |
| Other income | - | - | 51,996 | 51,996 |
| Total operating revenues | <u>2,468,000</u> | <u>2,468,000</u> | <u>2,287,745</u> | <u>(180,255)</u> |
| Operating expenses: | | | | |
| Salary expenses | 687,000 | 687,000 | 706,371 | (19,371) |
| Water treatment expenses | 269,500 | 269,500 | 243,660 | 25,840 |
| Maintenance expenses | 132,500 | 132,500 | 148,969 | (16,469) |
| General operating expenses | 201,650 | 201,650 | 167,497 | 34,153 |
| Depreciation | 654,630 | 654,630 | 658,747 | (4,117) |
| Total operating expenses | <u>1,945,280</u> | <u>1,945,280</u> | <u>1,925,244</u> | <u>20,036</u> |
| Operating income | <u>522,720</u> | <u>522,720</u> | <u>362,501</u> | <u>(160,219)</u> |
| Non-operating income (expenses): | | | | |
| Interest revenue | 900 | 900 | 629 | (271) |
| Interest expense | (506,649) | (506,649) | (488,614) | 18,035 |
| Total non-operating revenue (expenses) | <u>(505,749)</u> | <u>(505,749)</u> | <u>(487,985)</u> | <u>17,764</u> |
| Capital contributions: | | | | |
| Tap-on fees | <u>26,250</u> | <u>26,250</u> | <u>26,250</u> | <u>-</u> |
| Change in net position | <u>\$ 43,221</u> | <u>\$ 43,221</u> | <u>\$ (99,234)</u> | <u>\$ (142,455)</u> |
| Net position, beginning of year | | | <u>7,827,206</u> | |
| Net position, end of year | | | <u>\$ 7,727,972</u> | |

See accompanying notes and auditor's report.

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 Members of the Board of Commissioners
Crittenden-Livingston County Water District
620 East Main Street
Salem, KY 42078

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 Crittenden-Livingston County Water District as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Crittenden-Livingston County Water District's basic financial statements, and have issued our report thereon dated September 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Crittenden-Livingston 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 the Crittenden-Livingston County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Crittenden-Livingston County Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Crittenden-Livingston County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Comman, Byar, Watts & Elliott, CPAs, PLLC

Grand Rivers, KY
September 26, 2016