

**GALLATIN COUNTY WATER DISTRICT**  
**BASIC FINANCIAL STATEMENTS,**  
**SUPPLEMENTARY INFORMATION,**  
**AND INDEPENDENT AUDITOR'S REPORTS**

**At December 31, 2015 and 2014**

**GALLATIN COUNTY WATER DISTRICT  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY INFORMATION  
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2015 and 2014

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# RAISOR, ZAPP & WOODS, PSC

## Certified Public Accountants

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### INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the  
Gallatin County Water District  
Sparta, Kentucky 41086

#### Report on the Financial Statements

We have audited the accompanying financial statements of Gallatin County Water District as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Gallatin County Water 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gallatin County Water District, as of December 31, 2015 and 2014, 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.

*Emphasis of Matter*

As discussed in Note 22 to the financial statements, the District's previously issued December 31, 2015, financial statements have been restated to correct a misstatement in the presentation of deferred inflows in the statement of net position, and retirement plan expense in the statement of revenues, expenses, and changes in fund net position. Additionally, the comparative statement of revenues, expenses and changes in fund net position for the year ended December 31, 2014, has been restated to correct a misstatement in the presentation of retirement plan expense. Notes 14, 19, and 20 have been updated to reflect this restatement. The auditor's report dated June 8, 2016, on those previously issued statements is to be disregarded and is replaced by this auditor's report on the restated financial statements.

*Changes in Accounting Principle*

As described in Note 19 to the financial statements for the year ended December 31, 2015, the Gallatin County Water District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Finance Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68*. Our opinion is not modified with respect to this matter.

*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 3 through 6, the Schedule of the District's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 28, and the Schedule of District's Contributions – County Employee Retirement System on page 29 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2016, on our consideration of the Gallatin 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 Gallatin County Water District's internal control over financial reporting and compliance.

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants  
Carrollton, Kentucky

June 8, 2016 except as to issues discussed in Notes 14, 19, 20 and 22 to which the date is June 23, 2017.

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

Our discussion and analysis of the Gallatin County Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2015. Please read it in conjunction with the District's financial statements, which begin on page 7.

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of the District report information about the District's use of accounting methods which are similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The balance sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for evaluating the capital of the District and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its water rates and other fees.

The final required financial statement is its statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reported period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

During 2015 the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*. Under these statements, the District is required to report the net pension liability associated with its' employees' pensions as a liability. It is also required to report a deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. These balances reflect the District's obligation to pay deferred benefits earned by its employees when the pension plan's liability exceeds the value of the pension plan's assets. In accordance with the requirements of these statements the 2014 totals in this report have been restated.

**FINANCIAL HIGHLIGHTS**

The following are key financial highlights:

- Total assets at year-end of \$7,220,133 and deferred outflows of resources of \$75,268 exceeded liabilities of \$4,002,169 by \$3,293,232 (i.e. net position). Of the total net position, \$793,333 was unrestricted and was available to support short-term operations. Total net position increased from year end 2014 to 2015 in the amount of \$988.
- Total operating revenues and operating expenses remained relatively the same as last year with only a slight increase in revenues of \$3,558 and a decrease of \$1,120 in expenses.
- The District was in compliance with all debt covenants required by borrowing agreements.

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**Balance Sheet, Statement of Net Position**

Utility Plant decreased by \$274,871 net of depreciation, in 2015. (See diagram below.)

**Condensed Assets**

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Utility Plant	\$ 5,587,099	\$ 5,861,970	\$ (274,871)
Current Assets	1,043,155	870,003	173,152
Other Non-current Assets	589,879	585,715	4,164
<b>Total Assets</b>	<b><u>\$ 7,220,133</u></b>	<b><u>\$ 7,317,688</u></b>	<b><u>\$ (97,555)</u></b>

At the end of December 31, 2015, the District had \$5,587,099 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	<u>2015</u>	<u>2014</u>
Land & Rights	\$ 226,229	\$ 226,229
Structures & Improvements	245,271	254,626
Distribution System	4,883,592	5,125,012
Wells	209,280	223,189
Machinery & Equipment	22,727	32,914
<b>Totals</b>	<b><u>\$ 5,587,099</u></b>	<b><u>\$ 5,861,970</u></b>

This year's major additions included:

- There were no major additions to the Distribution system only minor upgrades to the District's wells and pumping stations. The connection with Mississippi Lime was completed.

Deferred outflows of resources associated with the District's Employees' Pension Plan were \$75,268 and \$21,969 for the years ended December 31, 2015 and 2014, respectively. The deferred outflows of resources reflect contributions to the pension plan made by the District subsequent to the net pension liability measurement date, and other deferred outflows arising from the actuarial assumptions used by the pension plan associated with changes made in assumptions, differences between expected and actual expenses, and changes in proportion and differences between Employer Contributions and Proportionate Share of Contributions. Differences between projected and actual investment earnings in pension plan investments also gave rise to deferred outflows of resources.

Long-term debt increased by \$16,878 attributable to the changes in the District's proportionate share of the net pension liability of the County Employees Retirement System. The decrease in current and accrued liabilities is attributed to the decrease in obligations due on capital projects at December 31, 2015.

**Condensed Liabilities**

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Long Term Debt	\$ 3,812,548	\$ 3,795,670	\$ 16,878
Current & Accrued Liabilities	189,621	214,743	\$ (25,122)
<b>Total Liabilities</b>	<b><u>\$ 4,002,169</u></b>	<b><u>\$ 4,010,413</u></b>	<b><u>\$ (8,244)</u></b>

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**Net Position**

At December 31, 2015, net position increased \$988, as a result of contributions in aid of construction of \$17,026 offset by the District's loss from operations (before contributions) of \$16,038.

**Condensed Net Position**

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Net Investments in Capital Assets	\$ 2,147,427	\$ 2,331,845	\$ (184,418)
Restricted for Debt Service	352,472	413,665	(61,193)
Unrestricted	793,333	546,734	246,599
Total	<u>\$ 3,293,232</u>	<u>\$ 3,292,244</u>	<u>\$ 988</u>

**Income Statement, Statement of Revenues, Expenses and Changes in Net Position**

Operating revenues for 2015 increased by \$3,558. Operating expenses decreased by \$1,120 in 2015. Depreciation also decreased.

**Condensed Statement of Revenues and Expenses**

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Operating Revenues	\$ 1,082,638	\$ 1,079,080	\$ 3,558
Operating Expenses	964,635	965,755	(1,120)
Net-Operating Revenue	\$ 118,003	\$ 113,325	\$ 4,678
Non-Operating Revenue (Expenses)	(134,041)	(139,760)	5,719
Income (Loss) Before Contributions	<u>\$ (16,038)</u>	<u>\$ (26,435)</u>	<u>\$ 10,397</u>

**Statement of Cash Flows**

Cash from Operating Activities was up \$10,637 in 2015. Cash from capital and related financing activities in 2015 reflect the monies received and used to finance capital improvements and equipment. Cash used in investing activities reflects the District's investment in additional certificates of deposit. Cash is consistent with expectations for the year.

**Condensed Statement of Cash Flows**

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Cash from Operating Activities	\$ 448,310	\$ 437,673	\$ 10,637
Cash from Capital & Related Financing Activities	(272,505)	(249,314)	(23,191)
Cash from Investing Activities	1,576	1,589	(13)
Change in Cash	\$ 177,381	\$ 189,948	\$ (12,567)
Cash Balance, Beginning of Year	653,009	463,061	189,948
Cash Balance, End of Year	<u>\$ 830,390</u>	<u>\$ 653,009</u>	<u>\$ 177,381</u>

**GALLATIN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2015**

**Debt**

At year-end, the District had \$3,441,217 in notes payable, bonds payable and accrued compensated absences compared to \$3,618,897 last year as shown below. The decrease is attributable to the payment of scheduled principal and interest payments.

	<u>2015</u>	<u>2014</u>
Notes Payable	\$ 420,772	\$ 445,125
Bonds Payable	3,018,900	3,085,000
Accrued Compensated Absences	1,545	734
Totals	<u>\$ 3,441,217</u>	<u>\$ 3,530,859</u>

**Net Pension Liability**

As indicated above, the District's adoption of GASB 68 and GASB 71 required that the District report its proportionate share of the net pension liability associated with its employees' pension plan (the County Employee Retirement System). The District's proportionate share was \$442,034 and \$331,000 for the years ended December 31, 2015 and 2014 and was based on measurement dates of June 30, 2015 and 2014, respectively.

**Deferred Inflows of Resources**

At December 31, 2014 the District reported \$37,000, for deferred inflows of resources associated with differences between projected and actual investment earnings on pension plan investments arising in the plan's fiscal year ending June 30, 2014. At December 31, 2015, deferred inflows of resources and deferred outflows of resources associated with differences between projected and actual investment earnings on pension plan investments from the plan's fiscal years ending June 30, 2014 and 2015, respectively, were netted, and included in deferred outflows of resources.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District anticipates no significant increases or decreases in operating expenses in 2016.

The District plans to upgrade the current manual meter read system to an automated or cellular based reading system. This will allow for more accurate reporting of customer usage and aid in the effort to keep water loss to a minimum.

The District anticipates no changes in customer rates but anticipates an increase in revenues associated with the implementation of the new meter reading system.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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's office at 4500 Highway 455, Sparta, KY 41086.

Tammy Hendren  
Office Manager



**GALLATIN COUNTY WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
December 31, 2015 and 2014

	2015	Restated 2014
<b>ASSETS</b>		
Current Assets:		
Cash, Including Time Deposits	\$ 871,225	\$ 693,245
Accounts Receivable Trade (Net)	121,537	127,172
Accounts Receivable - Other	539	895
Interest Receivable	1,540	721
Inventory	35,592	35,489
Prepaid Expense	12,722	12,481
Total Current Assets	\$ 1,043,155	\$ 870,003
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 589,722	\$ 585,558
Interest Receivable	157	157
Capital Assets (Net)	5,587,099	5,861,970
Total Noncurrent Assets	\$ 6,176,978	\$ 6,447,685
<b>Total Assets</b>	<b>\$ 7,220,133</b>	<b>\$ 7,317,688</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Attributable to Employee Pension Plan	\$ 75,268	\$ 21,969
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 11,885	\$ 21,354
Accounts Payable Capital Assets	-	13,866
Accrued Wages	3,600	2,563
Accrued Compensated Absences	1,545	734
Accrued Payroll Taxes/Employee Withholding	7,950	13,651
Utility Tax Payable	2,350	2,327
Sales Tax Payable	373	390
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	67,847	69,405
Revenue Bonds Payable	69,400	66,100
Note Payable - Kentucky Infrastructure Authority	24,671	24,353
Total Current Liabilities	\$ 189,621	\$ 214,743
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 2,949,500	\$ 3,018,900
Note Payable - Kentucky Infrastructure Authority	396,101	420,772
Escrow - Customer Construction Deposits	350	350
Net Pension Liability	442,034	331,000
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	24,563	24,648
Total Noncurrent Liabilities	\$ 3,812,548	\$ 3,795,670
<b>Total Liabilities</b>	<b>\$ 4,002,169</b>	<b>\$ 4,010,413</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Attributable to Employee Pension Plan	\$ -	\$ 37,000
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 2,147,427	\$ 2,331,845
Restricted for Debt Service	352,472	413,665
Unrestricted	793,333	546,734
<b>Total Net Position</b>	<b>\$ 3,293,232</b>	<b>\$ 3,292,244</b>

**GALLATIN COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>Restated 2014</u>
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,019,666	\$ 1,017,203
Total Charges for Services	<u>\$ 1,019,666</u>	<u>\$ 1,017,203</u>
Other Charges and Miscellaneous:		
Billing Service Charges	\$ 33,237	\$ 34,703
Connection Fees	28,120	24,700
Miscellaneous	1,615	2,474
Total Other Charges and Miscellaneous	<u>\$ 62,972</u>	<u>\$ 61,877</u>
Total Operating Revenues	<u>\$ 1,082,638</u>	<u>\$ 1,079,080</u>
 Operating Expenses:		
Bank Charges	\$ 1,447	\$ 2,529
Commissioner Fees	7,050	7,200
Contractual Service - Sampling	6,235	15,363
Dues	1,401	1,653
Health Insurance	100,382	81,596
Insurance	22,913	22,071
Labor	239,179	235,631
Maintenance of Mains	43,976	74,236
Office Supplies and Expense	28,448	23,226
Other Interest Expense	26	26
Payroll Taxes	16,713	17,146
Professional Services	12,187	12,001
Purchased Water	8,027	10,945
Regulatory Fees	2,078	1,854
Retirement Expense	62,021	36,612
Travel/Transportation Expense	16,177	21,219
Uniforms	4,327	3,716
Utilities - Office	13,350	13,411
Utilities - Pumping	61,372	63,743
Depreciation Expense	317,326	321,577
Total Operating Expenses	<u>\$ 964,635</u>	<u>\$ 965,755</u>
 Operating Income (Loss)	<u>\$ 118,003</u>	<u>\$ 113,325</u>
 Nonoperating Revenue (Expense):		
Investment Income	\$ 7,158	\$ 4,855
Interest Expense	(141,199)	(144,615)
Total Nonoperating Revenues (Expense)	<u>\$ (134,041)</u>	<u>\$ (139,760)</u>
 Income (Loss) Before Contributions	<u>\$ (16,038)</u>	<u>\$ (26,435)</u>
Capital Contributions	17,026	11,022
 Change in Net Position	<u>\$ 988</u>	<u>\$ (15,413)</u>
 Net Position--Beginning of Year	<u>3,292,244</u>	<u>3,307,657</u>
 Net Position--End of Year	<u>\$ 3,293,232</u>	<u>\$ 3,292,244</u>

**GALLATIN COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2015 and 2014**

	2015	Restated 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 1,088,552	\$ 1,100,328
Payments to Suppliers	(61,816)	(99,133)
Payments to Employees	(244,381)	(246,856)
Other Receipts (Payments)	(334,045)	(316,666)
Net Cash Provided (Used) by Operating Activities	\$ 448,310	\$ 437,673
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	\$ 17,026	\$ 11,022
Purchases of Capital Assets	(56,321)	(26,277)
Principal Paid on Capital Debt	(90,453)	(87,940)
Interest Paid on Capital Debt	(142,757)	(146,119)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (272,505)	\$ (249,314)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	\$ (4,763)	\$ (3,392)
Interest on Investments	6,339	4,981
Net Cash Provided (Used) by Investing Activities	\$ 1,576	\$ 1,589
Net (Increase) in Cash and Cash Equivalents	\$ 177,381	\$ 189,948
Balances-Beginning of the Year	653,009	463,061
Balances-End of the Year	\$ 830,390	\$ 653,009

	Balances Per December 31, 2015 Statement of Net Position	Balances Per December 31, 2015 Statement of Cash Flows
Cash	\$ 316,140	\$ 316,140
Time Deposits	555,085	-
Restricted Cash	514,250	514,250
Restricted Time Deposits	75,472	-
Total Cash and Cash Equivalents, End of Year	\$ 1,460,947	\$ 830,390
	Balances Per December 31, 2014 Statement of Net Position	Balances Per December 31, 2014 Statement of Cash Flows
Cash	\$ 142,472	\$ 142,472
Time Deposits	550,773	-
Restricted Cash	510,537	510,537
Restricted Time Deposits	75,021	-
Total Cash and Cash Equivalents, End of Year	\$ 1,278,803	\$ 653,009

(Continued)

**GALLATIN COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>Restated 2014</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 118,003	\$ 113,325
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	317,326	321,577
Pension Expense	20,735	(7,188)
Change in Assets and Liabilities:		
Receivables, Net	5,991	16,437
Inventories	(103)	(1,934)
Prepaid Expenses	(241)	(973)
Accounts and Other Payables	(9,469)	(11,045)
Accrued Expenses	(3,847)	2,634
Customer Meter Deposits Payable	(85)	4,840
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 448,310</u></u>	<u><u>\$ 437,673</u></u>

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

At December 31, 2015 and 2014, Gallatin County Water District had incurred \$-0- and \$13,866 in capital expenditures included in accounts payable - capital assets, respectively.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2015 and 2014**

**NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**

The Gallatin County Water District is a rural water company serving approximately 1,890 customers in Gallatin, Grant and Boone Counties of Kentucky, and regulated by the Public Service Commission of the Commonwealth of Kentucky. The Water District was formed under the laws of Gallatin County in September 1960 through the Fiscal Court (reaffirmed in 1985) and began operations in July 1989.

In evaluating how to define Gallatin County Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

**Basis of presentation and accounting:** As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds 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 (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position [measured as the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources] is segregated into net investment in capital assets, restricted; and unrestricted components.

**Revenues and expenses:** Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by Bond Agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014

**NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and equipment:** Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Structures & Improvements	40 years
- Distribution System	30-50 years
- Wells	35 years
- Machinery & Equipment	5-20 years

**Inventory:** Inventories are stated at latest cost.

**Compensated Absences:** See Note 9 for the District's policy on vacation and personal days.

**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 Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

**Deferred Outflows of Resources and Deferred Inflows of Resources:** Deferred Outflows of Resources and Deferred Inflows of Resources are not assets or liabilities; revenues or expenses. Rather they represent resources or the use of resources related to future periods.

**Income Taxes:** The Gallatin County Water District is not subject to income taxes.

**Contributed capital:** Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. No grant monies were received in the years ended December 31, 2015 and 2014. Tap-on fees of \$17,026 and \$11,022 were received by the District for the years ended December 31, 2015 and 2014.

**Net position:** Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

**Estimates:** The preparation of financial statements 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.

**Statement of Cash Flows:** For the purpose of the Statement of Cash Flows, Gallatin County Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014

**NOTE 2 – DEBT RESTRICTIONS AND COVENANTS**

The Bond and Interest Sinking Account was established with the original RECD bond issue, and is to be continued to be maintained as long as any of the 1988, 1993, 1996, 2000, 2002 or 2006 issues are outstanding. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, a monthly transfer must be made as follows:

$$\begin{array}{r} \text{one sixth (1/6) of the next semiannual interest payment} \\ + \quad \text{one twelfth (1/12) of next annual principal payment} \\ = \quad \text{monthly transfer} \end{array}$$

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2015 and 2014.

A funded depreciation reserve account was required in accordance with the original RECD Bond issue and was continued with the District's subsequent issues. The cumulative requirement of these issues was a monthly transfer of \$547 into this account until the balance accumulated to \$71,600. The 2000 Bond Resolution requires \$240 to be deposited monthly to the depreciation reserve account as long as any bonds payable remain outstanding, until an additional \$28,800 is accumulated. The 2002 Bond Resolution requires an additional transfer of \$65 per month until \$7,800 (additional) is accumulated. The 2006 Bond Resolution requires an additional transfer of \$865 per month until an additional \$103,800 is accumulated in the reserve. The deposits must be resumed any time the account(s) fall below the balance indicated.

A funded Maintenance and Replacement Reserve is required by the District's Assistance Agreement (B99-02) with the Kentucky Infrastructure Authority. Under the agreement, the District must deposit into this account an amount equal to 10% of the amount of the loan payment until the amount accumulated on deposit is equal to 5% of the original principal amount of the loan. The account was fully funded in June, 2013.

Transfers were made as required in 2015 and 2014.

A funded short lived asset account is required under the letter of conditions establishing funding for the 2006 system improvement project. Under this agreement, the District must deposit \$5,535 monthly into the account. This account may be used as needed to replace or add short lived assets in the District's water system. Transfers began in January, 2008. During 2014, \$13,701 was used to finance pump maintenance and the construction of a storage building.

**NOTE 3 – CASH AND INVESTMENTS**

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2015 and 2014, in accordance with the District's policy, \$1,372,034 and \$1,278,713 respectively, of the District's deposits were covered by federal depository insurance or Federal Home Loan Bank letters of credit. Additionally the depository had pledged securities held by the financial institution's agent in the District's name with market values of \$250,493 and \$285,694 at December 31, 2015 and 2014, respectively as additional collateral. Thus the District had no deposits that were exposed to custodial credit risk.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**December 31, 2015**

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 318,211	\$ 316,049
Time and Savings Deposits	1,144,808	1,144,808
Total Deposits	<u>\$ 1,463,019</u>	<u>\$ 1,460,857</u>

**December 31, 2014**

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 143,586	\$ 142,383
Time and Savings Deposits	1,136,330	1,136,330
Total Deposits	<u>\$ 1,279,916</u>	<u>\$ 1,278,713</u>

**Reconciliation to Statement of Net Position:**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Unrestricted Cash, Including Time Deposits	\$ 871,225	\$ 693,245
Restricted Cash, Including Time Deposits	589,722	585,558
Less Cash on Hand	(90)	(90)
	<u>\$ 1,460,857</u>	<u>\$ 1,278,713</u>

**NOTE 4 – RESTRICTED ASSETS**

**Restricted cash and investments consist of the following:**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Bond and Interest Sinking Account	\$ 142,034	\$ 211,924
Depreciation Account	237,296	222,257
Customer Deposits	30,974	30,842
Speedway Maintenance and Replacement Reserve	40,832	48,732
Short Lived Assets Account	138,586	71,803
Total	<u>\$ 589,722</u>	<u>\$ 585,558</u>

**Restricted receivables consist of the following:**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Interest Receivable	\$ 157	\$ 157
Total	<u>\$ 157</u>	<u>\$ 157</u>

**NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE**

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$13,463 and \$14,560 at December 31, 2015 and 2014, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.



**GALLATIN COUNTY WATER DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2015 and 2014

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2015 and 2014, was as follows:

	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015
Land & Land Rights	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	360,165	-	-	360,165
Distribution System	8,850,172	42,455	-	8,892,627
Wells	372,187	-	-	372,187
Machinery & Equipment	256,957	-	-	256,957
<b>Totals at Historical Cost</b>	<b>\$ 10,097,636</b>	<b>\$ 42,455</b>	<b>\$ -</b>	<b>\$ 10,140,091</b>
<b>Less: Accumulated Depreciation</b>				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	105,539	9,355	-	114,894
Distribution System	3,725,160	283,875	-	4,009,035
Wells	148,998	13,909	-	162,907
Machinery & Equipment	224,043	10,187	-	234,230
<b>Total Accumulated Depreciation</b>	<b>\$ 4,235,666</b>	<b>\$ 317,326</b>	<b>\$ -</b>	<b>\$ 4,552,992</b>
<b>Capital Assets, Net</b>	<b>\$ 5,861,970</b>	<b>\$ (274,871)</b>	<b>\$ -</b>	<b>\$ 5,587,099</b>

	Balance at January 1, 2014	Additions	Disposals	Balance at December 31, 2014
Land & Land Rights	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	344,910	15,255	-	360,165
Distribution System	8,825,284	24,888	-	8,850,172
Wells	372,187	-	-	372,187
Machinery & Equipment	256,957	-	-	256,957
<b>Totals at Historical Cost</b>	<b>\$ 10,057,493</b>	<b>\$ 40,143</b>	<b>\$ -</b>	<b>\$ 10,097,636</b>
<b>Less: Accumulated Depreciation</b>				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	96,376	9,163	-	105,539
Distribution System	3,440,600	284,560	-	3,725,160
Wells	135,090	13,908	-	148,998
Machinery & Equipment	210,097	13,946	-	224,043
<b>Total Accumulated Depreciation</b>	<b>\$ 3,914,089</b>	<b>\$ 321,577</b>	<b>\$ -</b>	<b>\$ 4,235,666</b>
<b>Capital Assets, Net</b>	<b>\$ 6,143,404</b>	<b>\$ (281,434)</b>	<b>\$ -</b>	<b>\$ 5,861,970</b>

Land and land rights are capital assets not being depreciated. Included under the District's plant assets were \$515,615 and \$501,626 of fully depreciated assets, at December 31, 2015 and 2014, respectively.

Depreciation expense aggregated \$317,326 and \$321,577 in 2015 and 2014, respectively.

**GALLATIN COUNTY WATER DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2015 and 2014**

**NOTE 7 – CUSTOMER DEPOSITS/ESCROW**

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full) or one year pending a satisfactory payment record. Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current annual rate. Accrued interest is paid annually and when the deposit is refunded.

Customer construction deposits represent amounts collected for hookups on future line extensions.

**NOTE 8 – LONG-TERM DEBT**

As of December 31, 2015 and 2014, the long-term debt payable consisted of the following:

**Notes Payable:**

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Kentucky Infrastructure Authority note payable represents a thirty year loan secured by water revenues. Interest is charged at 1.3% per annum. The original principal balance was \$744,796. Payments of principal, interest, and servicing fees are due semiannually. Final maturity is June 1, 2031.	\$ 420,772	\$ 445,125
<b>Total Notes Payable</b>	<b>\$ 420,772</b>	<b>\$ 445,125</b>
Current Portion	\$ 24,671	\$ 24,353
Noncurrent Portion	396,101	420,772
<b>Total Notes Payable</b>	<b>\$ 420,772</b>	<b>\$ 445,125</b>

**Bonds Payable:**

RECD Revenue Bonds of 1988 Series A, original issue amount of \$290,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2028.	\$ 162,000	\$ 171,000
RECD Revenue Bonds of 1988 Series B, original issue amount of \$108,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2028.	62,000	65,000
RECD Revenue Bonds of 1993, original issue amount of \$420,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2032.	280,000	290,000
RECD Revenue Bonds of 1996, original issue amount of \$371,000, secured by water revenues. Interest is charged at the rate of 4.875% per annum. Final maturity is January 1, 2035.	277,200	285,000

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014**

**NOTE 8 – LONG-TERM DEBT (Continued)**

**Bonds Payable: (Continued)**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
RECD Revenue Bonds of 2000 Series A, original issue amount of \$370,000, secured by water revenues. Interest is charged at the rate of 4.875% per annum. Final maturity is January 1, 2039.	301,300	307,900
RECD Revenue Bonds of 2000 Series B, original issue amount of \$112,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2039.	92,000	93,900
RECD Revenue Bonds of 2002, original issue amount of \$130,000, secured by water revenues. Interest is charged at the rate of 4.625% per annum. Final maturity is January 1, 2042.	112,100	114,100
RECD Revenue Bonds of 2006, Series A, original issue amount of \$1,394,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is January 1, 2046.	1,274,000	1,293,000
RECD Revenue Bonds of 2006, Series B original issue amount of \$500,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is January 1, 2046.	458,300	465,100
<b>Total Bonds Payable</b>	<b>\$ 3,018,900</b>	<b>\$ 3,085,000</b>
Current Portion	\$ 69,400	\$ 66,100
Noncurrent Portion	2,949,500	3,018,900
<b>Total Bonds Payable</b>	<b>\$ 3,018,900</b>	<b>\$ 3,085,000</b>

**Accrued Compensated Absences:**

<b>Current Accrued Compensated Absences</b>	<b>\$ 1,545</b>	<b>\$ 734</b>
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**Changes in Long-term Debt**

The following is a summary of changes in long-term debt for the years ended December 31, 2015 and 2014.

**December 31, 2015**

	<u>Balance at January 1, 2015</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance at December 31, 2015</u>	<u>Current Portion</u>
Notes Payable	\$ 445,125	\$ -	\$ 24,353	\$ 420,772	\$ 24,671
Bonds Payable	3,085,000	-	66,100	3,018,900	69,400
Accrued Compensated Absences	734	811	-	1,545	1,545
<b>Total Enterprise Fund Debt</b>	<b>\$ 3,530,859</b>	<b>\$ 811</b>	<b>\$ 90,453</b>	<b>\$ 3,441,217</b>	<b>\$ 95,616</b>

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014**

**NOTE 8 – LONG-TERM DEBT (Continued)**

**December 31, 2014**

	Balance at January 1, 2014	Additions	Repayments	Balance at December 31, 2014	Current Portion
Notes Payable	\$ 469,165	\$ -	\$ 24,040	\$ 445,125	\$ 24,353
Bonds Payable	3,148,900	-	63,900	3,085,000	66,100
Accrued Compensated Absences	832	-	98	734	734
<b>Total Enterprise Fund Debt</b>	<b>\$ 3,618,897</b>	<b>\$ -</b>	<b>\$ 88,038</b>	<b>\$ 3,530,859</b>	<b>\$ 91,187</b>

The annual requirements for all long-term debt outstanding at December 31, 2015, are as follows:

Due	Bonds	Bond Interest	KIA Note	Note Interest	Note Servicing Fee	Total Payments Due
2016	\$ 69,400	\$ 134,644	\$ 24,671	\$ 5,390	\$ 829	\$ 234,934
2017	73,500	131,438	24,993	5,068	780	235,779
2018	77,000	128,039	25,319	4,742	730	235,830
2019	81,200	124,479	25,649	4,412	679	236,419
2020	83,900	120,722	25,984	4,078	627	235,311
2021-2025	485,200	541,328	135,090	15,216	2,341	1,179,175
2026-2030	567,100	418,561	144,132	6,173	950	1,136,916
2031-2035	551,200	290,471	14,934	97	14	856,716
2036-2040	482,300	175,079	-	-	-	657,379
2041-2045	449,500	76,663	-	-	-	526,163
2046	98,600	4,067	-	-	-	102,667
	<b>\$ 3,018,900</b>	<b>\$ 2,145,491</b>	<b>\$ 420,772</b>	<b>\$ 45,176</b>	<b>\$ 6,950</b>	<b>\$ 5,637,289</b>

The annual requirements for all long-term debt outstanding at December 31, 2014 are as follows:

Due	Bonds	Bond Interest	KIA Note	Note Interest	Note Servicing Fee	Total Payments Due
2015	\$ 66,100	\$ 137,698	\$ 24,353	\$ 5,708	\$ 878	\$ 234,737
2016	69,400	134,644	24,671	5,390	829	234,934
2017	73,500	131,438	24,993	5,068	780	235,779
2018	77,000	128,039	25,319	4,742	730	235,830
2019	81,200	124,479	25,649	4,412	679	236,419
2020-2024	462,600	562,738	133,351	16,955	2,608	1,178,252
2025-2029	564,200	444,621	142,277	8,029	1,235	1,160,362
2030-2034	550,600	315,323	44,512	580	89	911,104
2035-2039	509,400	197,348	-	-	-	706,748
2040-2044	438,000	94,833	-	-	-	532,833
2045-2046	193,000	12,028	-	-	-	205,028
	<b>\$ 3,085,000</b>	<b>\$ 2,283,189</b>	<b>\$ 445,125</b>	<b>\$ 50,884</b>	<b>\$ 7,828</b>	<b>\$ 5,872,026</b>

**GALLATIN COUNTY WATER DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2015 and 2014**

**NOTE 9 – COMPENSATED ABSENCES**

Vacation days accumulate as follows:

At the end of 1 <sup>st</sup> year	1 week of vacation
At the end of 2 <sup>nd</sup> year	2 weeks of vacation
At the end of 5 <sup>th</sup> year	3 weeks of vacation

Vacation, if not taken in the calendar year due, is lost, unless specifically approved by the Commissioners. In 2001, the District approved a policy under which employees accrue 5 days of personal leave per year. In 2009, the District approved a policy under which an employee may accumulate up to 60 days (previously it was 30 days) personal leave. The District accrues a liability for compensated absences, which meet the following criteria:

1. The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the District accrues a liability for compensated absences. \$1,545 and \$734 of accrued compensated absences were payable at December 31, 2015 and December 31, 2014, respectively.

**NOTE 10 – INTEREST EXPENSE**

Interest expense incurred and charged to expense for the years ended December 31, 2015 and 2014 was \$141,225 and \$144,641, respectively. No interest was capitalized in 2015 or 2014.

**NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION**

	2015	2014
Restricted for Debt Service:		
RECD Revenue Bonds of 1988, 1993, 1996, 2000, 2002 and 2006		
Kentucky Infrastructure Authority Note		
Cash	\$ 420,162	\$ 482,913
Add: Accrued Interest Receivable	157	157
Less: Accrued Interest Payable	(67,847)	(69,405)
Total Restricted for Debt Service	\$ 352,472	\$ 413,665

**NOTE 12 – BAD DEBT EXPENSE**

Water revenue charges have been netted with estimated bad debt expense of \$10,485 and \$13,785 at December 31, 2015 and 2014, respectively.

**NOTE 13 – INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. The District is also subject to the risks associated with employee injury. Each of these risks is covered through coverage provided by Wright Specialty Insurance (property/general liability) and Kentucky Employer Mutual Insurance (KEMI) (Workers Compensation).

**GALLATIN COUNTY WATER DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2015 and 2014**

**NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**

Entry into the Commonwealth of Kentucky’s County Employees’ Retirement System (CERS) was authorized by the Commissioners. Electing employees and all new employees of the District may participate in the System.

Under the provision of Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and 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. The most recent financial report, dated June 30, 2015, may be obtained from <https://kyret.ky.gov/Financial%20Statements/2015/Financial.pdf>. Additionally, the Kentucky Retirement System issues a publicly available financial report that includes the Schedules of Employer Allocations and Pension amounts by Employer. The most recent report, dated June 30, 2015 may be obtained from <https://kyret.ky.gov/employers/GASB/pages/GASB-library.aspx>.

**Plan Description** – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

**Basis of Accounting** – CERS’s financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

**Method Used to Value Investments** – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value.

**Benefits provided** – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 – December 31, 2013 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 Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 Not available

GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014

**NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
(Continued)

Retirement is based on a factor of the number of years’ 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 of 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 of 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* - For the fiscal years ended June 30, 2015 and 2014, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2015 and 2014, participating employers contributed 17.67% and 18.89%, respectively, of each employer’s creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2015 and 2014, were 17.67% and 18.89%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contribution was deposited to the member’s account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members’ accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member’s account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member’s salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

*Actuarial Methods and Assumptions*

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all KRS Systems:

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including Inflation

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014**

**NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
(Continued)

*Actuarial Methods and Assumptions (Continued)*

There were no changes of benefit terms. However, the following changes in assumptions were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return 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% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- 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 one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. 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 nominal rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Cash Equivalent Long Term Expected Real Rate of Return</u>
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
<b>Total</b>	<b>100%</b>	



**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014**

**NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
(Continued)

***Discount Rate***

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

***Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2015 and 2014], calculated using the discount rate of 7.5% and 7.75%, respectively, as well as what CERS’ net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

<u>As of June 30, 2015</u>	<u>1% Decrease [6.5%]</u>	<u>Current Discount [7.5%]</u>	<u>1% Increase [8.5%]</u>
Net Pension Liability	\$ 5,488,878,000	\$ 4,299,525,565	\$ 3,280,950,000
District’s Proportionate Share	564,312	442,034	337,314
<u>As of June 30, 2014</u>	<u>1% Decrease [6.75%]</u>	<u>Current Discount [7.75%]</u>	<u>1% Increase [8.75%]</u>
Net Pension Liability	\$ 4,269,383,000	\$ 3,244,376,000	\$ 2,338,760,000
District’s Proportionate Share	435,574	331,000	238,607

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension***

At December 31, 2015, and 2014 the District reported a liability of \$442,034 and \$331,000, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2015, and 2014 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. 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 employers, actuarially determined. At June 30, 2015, and 2014 the District’s proportion was 0.010281 and 0.010202 percent, respectively, which is an increase of 0.000079%. Data is not available for the change in its proportion from previous periods.

The District’s total payroll for the fiscal year ended December 31, 2015 was \$248,111. Contributions to CERS were based on \$241,061 (eligible gross wages). The total employer contributions for the year ended December 31, 2015 were \$41,836.

The District’s total payroll for the fiscal year ended December 31, 2014, was \$250,626. Contributions to CERS were based on \$243,426 (eligible gross wages). The total employer pension contributions for the year ended December 31, 2014, were \$44,467.

All contributions were made as required during these years.

The District’s contribution for the County Employees’ Retirement System’s year(s) ended December 31, 2015, and 2014 was 0.010281 and 0.010217 percent, respectively, of the System’s total contribution requirements for all employers.

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014**

**NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
(Continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)*

For the years ended December 31, 2015, and December 31, 2014, the District recognized pension expense of \$62,021 and \$36,612, respectively. At December 31, 2015 and 2014 the District reported deferred outflows of resources and deferred inflows of resources related to CER’S pensions from the following sources:

	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 3,674	\$ -	\$ -	\$ -
Change in Assumptions	44,574	-	-	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,644	-	-	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	3,962	-	-	37,000
District Contributions Made Subsequent to the NPL Measurement Date	21,414	-	21,969	-
<b>Total</b>	<u><u>\$ 75,268</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 21,969</u></u>	<u><u>\$ 37,000</u></u>

\$21,414 and \$21,969 reported as deferred outflows of resources related to pensions arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2016 and 2015. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

	Increase (Decrease)	to Pension Expense
Year Ended December 31, 2015:		
2016	\$	18,555
2017		18,555
2018		8,816
2019		7,928
	<u>\$</u>	<u>53,854</u>

	Increase (Decrease)	to Pension Expense
Year Ended December 31, 2014:		
2015	\$	(9,250)
2016		(9,250)
2017		(9,250)
2018		(9,250)
	<u>\$</u>	<u>(37,000)</u>

GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014

**NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
(Continued)

*Payable to the Pension Plan*

At December 31, 2015 and 2014, the District reported a payable of \$6,041 and \$6,104, respectively for the outstanding amount of contributions required for the years then ended. These amounts represent the employee withholding and employer match for the last month of the years then ended. The payable includes both pension and insurance contributions.

**NOTE 15 – RESALE AGREEMENT**

The District has entered into a water resale agreement with the Kentucky American Water District under which agreement, Gallatin County Water District will sell its water to Kentucky American Water at a price of \$1.46 per thousand gallons. A minimum of 559,567 gallons is required to be purchased monthly. The agreement is for a term of 20 years with automatic one year extensions unless terminated by either party upon written notice as specified. Rates may be modified by providing 180 days notice, or by regulatory authority action.

**NOTE 16 - PURCHASED WATER CONTRACT**

Gallatin County Water District has a long-term contract with the City of Warsaw for the purchase of treated water. The original contract for water became effective July 28, 1986, and extended for a period of forty-five (45) years. On June 13, 2007 the contract was amended. Under the agreement, Gallatin County Water District will be charged \$1.25 per 1,000 gallons purchased, with a minimum of 500,000 gallons to be purchased monthly.

**NOTE 17 – WATER SUPPLY AGREEMENT – ECONOMIC DEPENDENCY**

The District has entered into a water-supply agreement with Kentucky Speedway, LLC. Under the terms of the agreement, Kentucky Speedway, LLC is assessed an annual minimum charge of \$35,000 for annual usage equal to that charge under the District's approved rates. The Speedway is billed monthly the minimum installment plus sales tax and school tax. When accumulated usage exceeds the annual maximum, the Speedway is charged the current rates in effect for that usage. 3.4% and 3.8% of total water revenue was received from Kentucky Speedway, LLC for the years ended December 31, 2015 and 2014, respectively.

**NOTE 18 – COMMITMENTS AND CONTINGENCIES**

Under the health insurance plan adopted by the District, employee deductibles are \$1,500 (single plan)/\$3,000 (family plan). The District will pay for eligible medical expenditures incurred by employees above the maximum employee costs determined by the District of \$500 single/\$1,000 family up to the deductible of the plan (\$1,500 single/\$3,000 family). Any unused deductible remains with the District and does not accrue to the benefit of the employee. The estimated potential liability to the District under this policy is \$2,763 and \$4,558 at December 31, 2015 and 2014 respectively. No accrual has been recorded in the financial statements due to the contingent nature of this liability.

**NOTE 19 – FINANCIAL STATEMENTS RESTATEMENT**

In June, 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. In November, 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68*. Both of these statements were adopted by the District for the fiscal year ended June 30, 2015. Under these statements, the District is required to report the net pension liability associated with its' employees' pensions as a liability. It is also required to report a deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. These balances reflect the District's obligation to pay deferred benefits earned by its employees when the pension [plan's] liability exceeds the value of the pension plan's assets.

Retroactive application by restating financial statements for all periods presented is required. The effect of the reinstatement is as follows for the year ended December 31, 2014.

GALLATIN COUNTY WATER DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2015 and 2014

**NOTE 19 – FINANCIAL STATEMENTS RESTATEMENT** (Continued)

Statement of Net Position:

Total Net Position as Originally Presented December 31, 2014	\$	3,638,275
Less Net Pension Liability		(331,000)
Plus Deferred Outflows Employer Pension Contributions		21,969
Less Deferred Inflows of Resources - Difference Between Projected and Actual Earnings		<u>(37,000)</u>
 Total Net Position December 31, 2014	 \$	 <u><u>3,292,244</u></u>

The components of Net Position at December 31, 2014 after restatement are as follows:

Net Investment in Capital Assets	\$	2,331,845
Restricted for Debt Service/Capital Expenditures		413,665
Unrestricted		<u>546,734</u>
 Total Net Position	 \$	 <u><u>3,292,244</u></u>

Statement of Revenues Expenses and Changes in Fund Net Position:

Change in Net Position as Originally Presented in the [Comparative] Statement for the Year-Ended December 31, 2014:	\$	(22,601)
Plus: Reduction in Retirement Plan Expense		<u>7,188</u>
 Change in Net Position December 31, 2014	 \$	 <u><u>(15,413)</u></u>

**NOTE 20 – SUBSEQUENT EVENTS**

In March, 2017, the District entered into a contract to acquire Beacon AMA Cellular Read Meters at a cost of \$447,274. The District will finance the project through its own cash reserves. The net book value of the meters to be replaced is approximately \$185,000 at December 31, 2016. The District anticipates the cellular read meters to be installed in two phases over a two year period.

In June, 2017, the District received PSC approval to refund its outstanding Waterworks Revenue Bonds (Rural Development) Series 1988 A, 1988 B, 1993, 1996, 2000 A, 2000 B, and 2002 through financing provided by the Kentucky Rural Water Finance Corporation. The sale of the Kentucky Rural Water Finance Corporation, Public Projects Revenue and Refunding Revenue Bonds, Series 2017, Gallatin County Water District occurred on June 20, 2017, principal amount of \$1,180,000.

**NOTE 21 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. This statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The District is evaluating the requirements of this statement.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify (in the context of the current governmental financial reporting environment) the hierarchy of GAAP. The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in

**GALLATIN COUNTY WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014**

**NOTE 21 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)**

conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement becomes effective for financial statements for periods beginning after June 15, 2015. The District is evaluating the requirements of this Statement.

**NOTE 22 – REISSUED FINANCIAL STATEMENTS**

The financial statements have been reissued to report a restatement in the presentation of deferred inflows in the statement of net position as of December 31, 2015. Additionally, the associated retirement plan expense in the statement(s) of revenues, expenses, and changes in fund net position for the years ended December 31, 2015, and 2014, has been restated. The restatement of the financial statement presentation has been made to correct a misinterpretation of the transactions associated with the initial presentation of Net Pension Liability and the associated deferred outflows and inflows related to the District's pension plan, and the restatement of prior periods required by GASB 68. Note 14, "County Employees' Retirement System – Non-Hazardous Employees' Pension Plan" and Note 19, "Financial Statements Restatement" have been revised to reflect this correction.

Note 20 has been added to report subsequent events impacting the District's statements.

GALLATIN COUNTY WATER DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
County Employees Retirement System

Last Two Fiscal Years\*

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.010281%	0.010202%
District's proportionate share of the net pension liability (asset)	\$ 442,034	\$331,000
District's covered-employee payroll	\$ 241,061	\$243,426
District's proportionate share of the net pension liability (asset) as a percentage of its of its covered-employee payroll	183.37%	135.98%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

\*Calculations based on June 30, 2015 and 2014, County Employees Retirement Systems' Schedules of Employer Allocations and Pension Amounts by Employer. District payroll is reported for its' covered calendar years ending December 31, 2015 and 2014.

GASB 68 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

There were no changes of benefit terms. However, the following changes in assumptions were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return 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% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- 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 one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

GALLATIN COUNTY WATER DISTRICT

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

County Employees Retirement System

Fiscal Years Ended December 31

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contributions	\$ 41,836	\$ 44,467	\$ 43,228
Contributions in relation to the contractually required contributions	41,836	44,467	43,228
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 241,061	\$ 243,426	\$ 225,007
Contributions as a percentage of covered-employee payroll	17.35%	18.27%	19.21%

The District's contributions above include the total contributions to the County Employees Retirement System. No allocation has been made between contributions to the CERS Pension Fund and the CERS Insurance Fund.

# RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commissioners of the  
Gallatin County Water District  
Sparta, KY 41086

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 Gallatin County Water District as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Gallatin County Water District's basic financial statements, and have issued our report thereon dated June 8, 2016, except as to issues discussed in Notes 14, 19, 20 and 22 to which the date is June 23, 2017.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Gallatin 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gallatin County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Gallatin 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (Items 2015-001 and 2015-002).



**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Gallatin 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*.

**GALLATIN COUNTY WATER DISTRICT'S RESPONSE TO FINDINGS**

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

**PURPOSE OF THIS REPORT**

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.

*Raisor, Zapp & Woods, PSC*

**RAISOR, ZAPP, & WOODS P.S.C**  
Certified Public Accountants  
Carrollton, Kentucky

June 8, 2016 except as to issues discussed in Notes 14, 19, 20 and 22 to which the date is June 23, 2017.

**GALLATIN COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2015**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unmodified opinion on whether the financial statements of the Gallatin County Water District were prepared in accordance with GAAP.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the 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. Items 2015-001 and 2015-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Gallatin County Water District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**GOVERNMENT AUDITING STANDARDS**

**DEFICIENCIES IN INTERNAL CONTROL**

**2015-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES**

**CONDITION:**

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2014 as 2014-001.

**CRITERIA:**

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

**CAUSE:**

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

**EFFECT:**

This limitation may affect the ability to timely record, process, summarize and report financial data.

**RECOMMENDATION:**

Management should strive to provide cross-training for administrative staff and implement checking processes.

**RESPONSE:**

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the staff size and responsibility of financial personnel. Efforts have been made to cross-train employees to improve the staff's ability to rotate duties and increase checking procedures.

**GALLATIN COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES (Continued)  
For the Year Ended December 31, 2015**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)**

**GOVERNMENT AUDITING STANDARDS (Continued)**

**DEFICIENCIES IN INTERNAL CONTROL (Continued)**

**2015-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED  
NOTE DISCLOSURES**

**CONDITION:**

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2014 as 2014-002.

**CRITERIA:**

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

**CAUSE:**

The draft financial statements and disclosures are prepared during the audit process.

**EFFECT:**

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements.

**RECOMMENDATION:**

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

**RESPONSE:**

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

**COMPLIANCE AND OTHER MATTERS**

**NONE**