

**CARROLL COUNTY WATER DISTRICT NO. 1**

**BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND INDEPENDENT AUDITOR'S REPORTS**

**At December 31, 2016 and 2015**

**CARROLL COUNTY WATER DISTRICT NO. 1  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY INFORMATION  
AND INDEPENDENT AUDITOR'S REPORTS**

**Years Ended December 31, 2016 and 2015**

**TABLE OF CONTENTS**

<b>Independent Auditor's Report</b>	<b>1-2</b>
<b>Management's Discussion and Analysis</b>	<b>3-8</b>
<b>Basic Financial Statements:</b>	
<b>Statement of Net Position</b>	<b>9</b>
<b>Statement of Revenues, Expenses, and Changes in Fund Net Position</b>	<b>10</b>
<b>Statement of Cash Flows</b>	<b>11-12</b>
<b>Notes to Basic Financial Statements</b>	<b>13-28</b>
<b>Required Supplemental Information</b>	
<b>Schedule of the District's Proportionate Share of the Net Pension Liability –         County Employees Retirement System</b>	<b>29</b>
<b>Schedule of the District's Contributions – County Employees Retirement System</b>	<b>30</b>
<b>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 <u>Government Auditing Standards</u></b>	<b>31-32</b>
<b>Schedule of Findings and Responses</b>	<b>33-34</b>

# RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008  
502-732-6655 • taxes@rzwcpas.com

Dennis S. Raisor, CPA  
Jerilyn P. Zapp, CPA  
Jeffery C. Woods, CPA  
Susan A. Dukes, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the  
Carroll County Water District No. 1  
Ghent, Kentucky 41045

### Report on the Financial Statements

We have audited the accompanying financial statements of Carroll County Water District No. 1 as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 Carroll County Water District No. 1, as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, the Schedule of the District's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 29, and the Schedule of the District's Contributions – County Employees Retirement System on page 30 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 23, 2017, on our consideration of Carroll County Water District No. 1'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 Carroll County Water District No. 1's internal control over financial reporting and compliance.

*Raisor, Zapp & Woods, PSC*

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

June 23, 2017

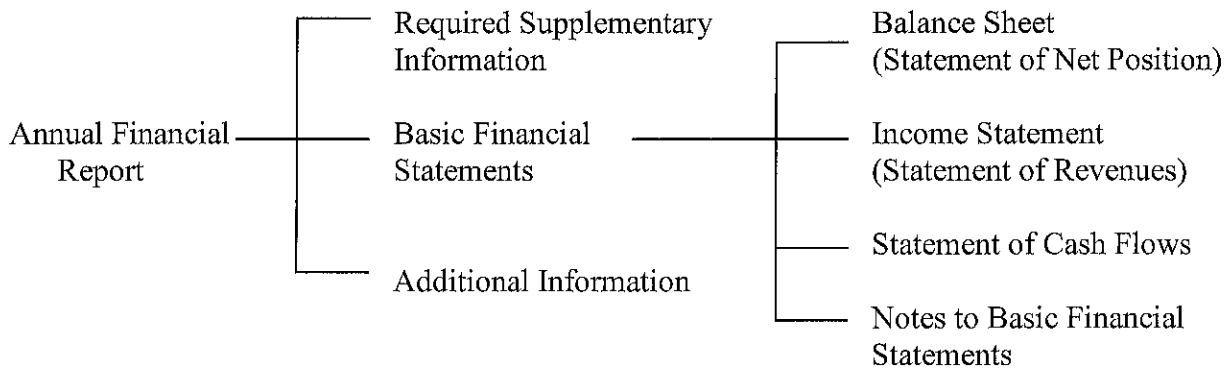


## MANAGEMENT’S DISCUSSION AND ANALYSIS

This Discussion and Analysis of Carroll County Water District #1 financial performance provides an overview of the District’s financial activities for the fiscal year ending December 31, 2016. It should be read in conjunction with the District’s financial statements and supplementary information.

### Financial Statements Overview

This annual financial report consists of three major parts: required supplementary information, basic financial statements, and supplementary information. Included with the financial statement are notes that explain in more detail some of the information in the financial statements. Additional to these notes is a section of supplementary information in support of the information in the financial statements. The figure below illustrates how the annual financial report is arranged.



The Balance Sheet or Statement of Net Position includes all of the District’s assets and liabilities and provides a basis for evaluating the overall health and financial flexibility of the District.

The Income Statement or the Statement of Revenues, Expenses, and Changes in Fund Net Position account for all the current year’s revenues and expenses. This statement is a ready reflection of the success of the District’s operations over the past year and shows at a glance whether or not the District has recovered all of its costs through its water rates and other charges.

The Statement of Cash Flows primary purpose is to provide information about the District’s cash receipts, payments, and net changes in cash resulting from its operations, investing activities and financing activities and provides further information on the sources and uses of cash and the changes in the cash balances during the operating year.

**Financial Highlights**

- Total assets decreased by \$53,722 to \$13,118,624 in 2016. This decrease is explained by a slight decrease in cash and a decrease in fixed assets attributable to construction in process when compared to the previous year.
- Operating Revenues increased by \$65,363 or 3.5% to \$1,918,026 in 2016. Water sales were up in 2016.
- Operating Expenses were up \$36,642 in 2016 when compared to 2015. This increase when compared to 2015 due primarily to higher costs associated with power and retirement plan expense.
- Net Income before Capital Contributions for 2016 as compared to the previous year was up \$47,357. This is primarily due to less operating expense and an increase in water sales when compared to previous year.
- Capital Contributions were down by \$106,987 when compared to 2015 mainly due to debt forgiveness associated with the Carrollton Utilities Interconnect and Focus projects that took place in 2015.

**Statement of Net Position**

During 2016, additions to the asset base were \$409,978 lower than the additions in 2015. Primarily due to less construction in progress even though a higher than normal expenditure on equipment was made during the year. The depreciation for the year being basically the same as the prior year. This resulted in \$53,722 reduction in total assets when compared to the prior year.

	2016	2015	2014	Difference 16-15	%
Utility Plant	\$9,898,723	\$10,001,649	\$9,934,602	\$(102,926)	(1.01)
Current Assets	\$1,892,512	\$1,862,213	\$1,805,749	\$30,299	1.6
Other Non-Current Assets	\$1,327,389	\$1,308,484	\$1,047,527	\$18,905	1.4
Total Assets	\$13,118,624	\$13,172,346	\$12,787,878	\$(53,722)	0.4

**Deferred Outflows/Inflows of Resources**

This MDA is the second to deal specifically with CERS retirement Liability. The District now must plan to be prepared to assume liability for the pension plan that historically has been a state responsibility. These outflows and inflows are neither assets nor liabilities but represent allocations that will impact future pension expense.

**Deferred Outflows/Inflows of Resources (Continued)**

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>**Difference 16-15</b>	<b>%</b>
Deferred Outflow	\$165,354	\$118,265	\$34,239	\$47,089	39.8
Deferred Inflow	\$1,450	\$2,410	\$60,000	\$(960)	(39.8)

In addition to the deferred inflows related to the net pension liability, the District had deferred inflows of \$2,235 and \$2,337 in unamortized bond premiums for the years ended December 31, 2016 and 2015.

**Liabilities**

The reduction in total liabilities in 2016 vs. 2015 is accounted for primarily by lower payables due to debt reduction. This reduction in 2016 is also impacted by a \$50,000 cash payment in 2015 to Carrollton Utilities for the interconnect project. An offset to this reduction in total liabilities is a \$107,210 increase in net pension liability.

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>Difference 16-15</b>	<b>%</b>
Long Term Liabilities	\$7,011,247	\$7,201,014	\$7,000,843	\$(189,767)	(2.6)
Current & Accrued Liabilities	\$433,127	\$462,155	\$408,994	\$(29,028)	(6.3)
Total Liabilities	\$7,444,374	\$7,663,169	\$7,409,837	\$(218,795)	(2.9)

**Total Net Position**

Total Net Position as shown below is up \$213,224 due to the net income of the District.

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>Difference 16-15</b>	<b>%</b>
Total Net Position	\$5,835,919	\$5,622,695	\$5,349,841	\$213,224	3.8

**Income Statement**

Operating Revenues for 2016 were up when compared to 2015 due to higher water sales. Operating expenses for 2016 were up by \$36,642 when compared to 2015 due primarily to higher costs associated with power and retirement plan expense. The net income for the year was down by \$59,630 due to reduced capital contributions during 2016 when compared to 2015.

	2016	2015	2014	Difference (16-15)	%
Operating Revenue	\$1,918,026	\$1,852,663	\$1,856,478	\$65,363	3.5
Operating Expense	\$1,547,591	\$1,510,949	\$1,601,400	\$36,642	2.4
Net Operating Revenue	\$370,435	\$341,714	\$255,078	28,721	8.4
Non-Operating Expenses	\$210,888	\$229,524	\$180,463	\$(18,636)	8.1
Capital Contributions	\$53,677	\$160,664	\$21,189	\$(106,987)	(67)
Special Item	-		-		
Net Income	\$213,224	\$272,854	\$95,804	\$(59,630)	(21.9)

**Statement of Cash Flows**

Cash from Operating Activities was up by 1.8% when compared to 2015. This was offset by a 71.2% increase in capital purchases of equipment and additional principal payment of \$50,000 for the interconnect project resulting in a 62% reduction in cash for years end.

	2016	2015	2014	Difference (16-15)	%
Cash from Operating Activities (Net)	\$853,911	\$838,477	\$734,314	\$15,434	1.8
Cash from Non-Capital Financing Activities	\$0	\$0	\$11,508	\$-	N/A
Cash from Capital & Related Financing Activities	\$(878,064)	\$(512,996)	\$(504,743)	\$(365,068)	(71.2)
Cash From Investing Activities	\$1,345	\$1,275	\$(119,537)	\$70	5.5
Change in Cash	\$(22,808)	\$326,756	\$121,542	\$(349,564)	(107)
Cash Balance, Beginning of Year	\$1,875,883	\$1,549,127	\$1,427,585	\$326,756	21.1
Cash Balance, End of Year	\$1,853,075	\$1,875,883	\$1,549,127	\$(22,808)	(1.2)



**Debt Administration**

As of year's end 2016 the District had outstanding Bond debt of \$5,305,500 and Notes Payable of \$1,121,127 for a total of \$6,426,627 in Long Term Debt. The funds available for Debt Service in 2016 were more than sufficient to cover debt payments without pulling down cash. The Debt Coverage Ratio for 2016 was 1.53, a level that is sufficient not only to pay debt but also allow sufficient allocation to Depreciation and other capital improvement projects.

	2016	2015	2014	Difference (16-15)	%
Total Bonds Payable	\$5,305,500	\$5,447,500	\$5,589,500	\$(142,000)	(2.6)
Note Payable	\$1,121,127	\$1,275,079	\$1,095,377	\$(153,952)	(12)
Income Available for Debt Service	\$880,826	\$817,215	\$704,297	\$63,611	4.1
Total Debt Service	\$535,562	\$481,803	\$477,006	\$53,759	11.2
Debt Coverage	1.53	1.64	1.48	(0.11)	(6.7)

**Economic Outlook**

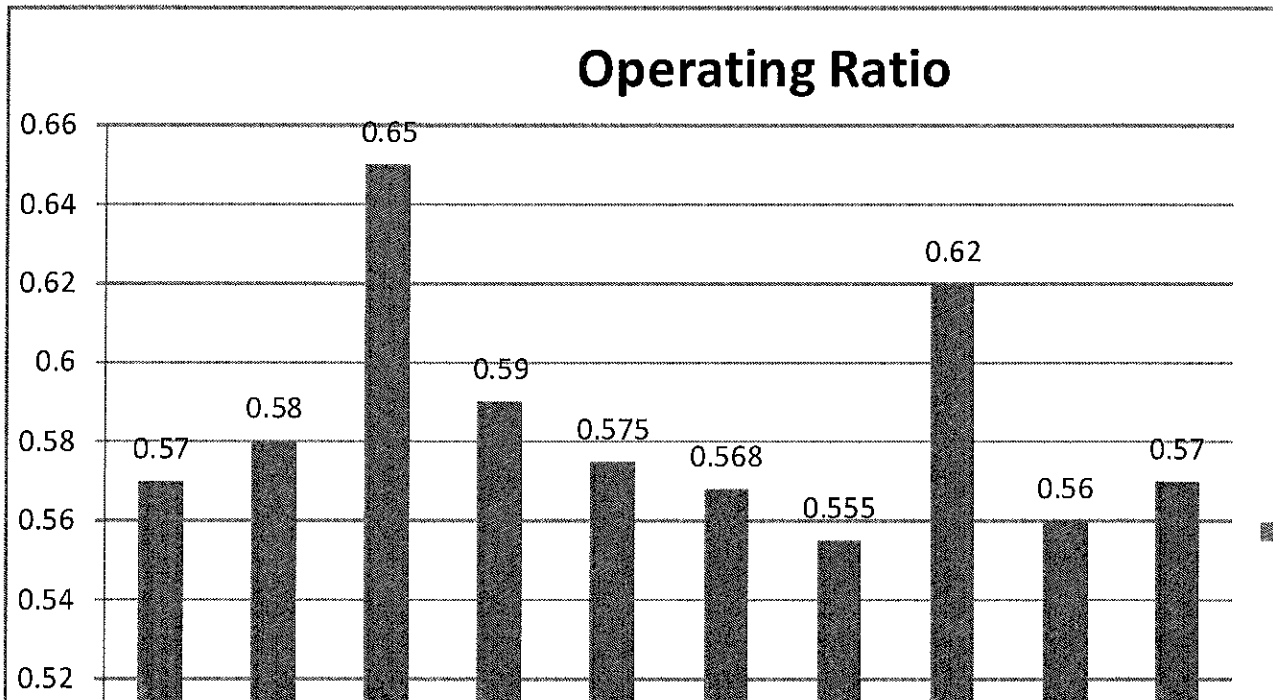
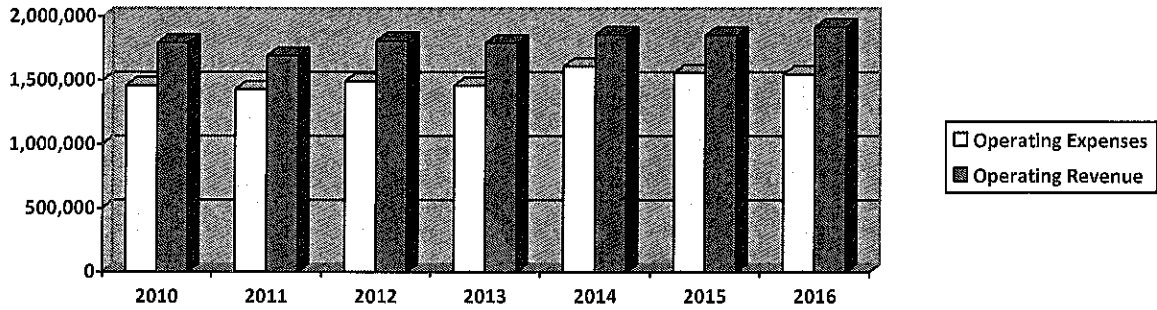
No significant growth or decline in water sales is expected in 2017. The two diagrams on the next page are offered to give a picture of the relative health of the Water District. The graph of the Operating Expenses including Depreciation versus Operating Revenue presents a view of monies remaining to cover debt after Operating Expenses have been paid. You will note the numbers for 2016 reflect a comfortable level in Revenue versus Expenses as was expected for this particular year. The graph titled Operating Ratio depicts Total Operating Expenses less Depreciation divided by Total Revenues and is a measure of overall efficiency of the District. Management feels that trends in this Operating Ratio reflect the health of the District. In the healthiest operations this ratio will remain constant or reduce over time.

- Approximately 7,000 feet of 6" asbestos cement pipe is being relocated and upgraded to a 8" PVC water main. This project will be incorporated within the Kentucky Department of Transportation. Since the existing line will be inside the proposed disturbance area, Carroll County Water is only responsible for the cost of the betterment portion which will be approximately 10.6% (Est. \$49,490) cost of the relocation project. This project will be finished in 2017. This project will be a high cost savings to the District as replacement of some of the original undersized pipe in the portion of the distribution system has high demand.
- Last year, the District put in place a tank maintenance program for inspection, repair and painting of all system tanks. The addition of mixing systems and painting of these tanks will require major expenditures during future years.

**Contacting District Management**

This financial report is designed to provide an easy to read general overview of the District's finances to its ratepayers, creditors, or public at large. It also provides accountability for the money received by the District. Questions concerning this report may be directed to the Manager of the District at 205 Main Cross Street in Ghent, Kentucky 41045, phone 502-347-9500.

### Operating Expenses vs. Operating Revenue



**CARROLL COUNTY WATER DISTRICT NO. 1**  
**STATEMENT OF NET POSITION**  
December 31, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash, Including Time Deposits	\$ 1,503,467	\$ 1,533,036
Accounts Receivable (Net)	176,002	156,054
Other Receivables	11,711	121
Inventory	161,430	135,011
Prepaid Expense	39,902	37,991
<b>Total Current Assets</b>	<b>\$ 1,892,512</b>	<b>\$ 1,862,213</b>
<b>Noncurrent Assets:</b>		
<b>Restricted Assets:</b>		
Cash, Including Time Deposits	\$ 1,327,193	\$ 1,308,274
Interest Receivable	96	110
Capital Assets (Net)	9,898,723	10,001,649
Deposits	100	100
<b>Total Noncurrent Assets</b>	<b>\$ 11,226,112</b>	<b>\$ 11,310,133</b>
<b>Total Assets</b>	<b>\$ 13,118,624</b>	<b>\$ 13,172,346</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Attributable to Employee Pension Plan	\$ 165,354	\$ 118,265
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 42,088	\$ 37,621
Accounts Payable - Capital Assets	-	50,000
Accrued Compensated Absences	40,836	32,608
Accrued Wages	2,042	-
Accrued Payroll Taxes/Employee Withholding	16,241	12,381
Utility Tax Payable	4,092	4,489
Sales Tax Payable	3,217	3,094
<b>Current Liabilities Payable from Restricted Assets:</b>		
Accrued Interest Payable	71,999	73,415
Revenue Bonds Payable	144,500	142,000
Note Payable	108,112	106,547
<b>Total Current Liabilities</b>	<b>\$ 433,127</b>	<b>\$ 462,155</b>
<b>Noncurrent Liabilities:</b>		
Revenue Bonds Payable	\$ 5,161,000	\$ 5,305,500
Note Payable	1,013,015	1,168,532
Net Pension Liability	811,645	704,435
<b>Noncurrent Liabilities Payable from Restricted Assets:</b>		
Customer Deposits Payable	25,587	22,547
<b>Total Noncurrent Liabilities</b>	<b>\$ 7,011,247</b>	<b>\$ 7,201,014</b>
<b>Total Liabilities</b>	<b>\$ 7,444,374</b>	<b>\$ 7,663,169</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Attributable to Employee Pension Plan	\$ 1,450	\$ 2,410
Unamortized Bond Premiums	2,235	2,337
<b>Total Deferred Inflows of Resources</b>	<b>\$ 3,685</b>	<b>\$ 4,747</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 3,469,861	\$ 3,276,733
Restricted for Capital Projects	-	7,001
Restricted for Debt Service	1,229,703	1,205,421
Unrestricted	1,136,355	1,133,540
<b>Total Net Position</b>	<b>\$ 5,835,919</b>	<b>\$ 5,622,695</b>

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
For the Years Ended December 31, 2016 and 2015

	2016	2015
<b>Operating Revenues:</b>		
<b>Charges for Services:</b>		
Water Charges (Net)	\$ 1,829,992	\$ 1,758,576
Bulk Water Charges	82	68
Total Charges for Services	\$ 1,830,074	\$ 1,758,644
<b>Other Charges and Miscellaneous:</b>		
Billing Service Charges	\$ 43,390	\$ 43,685
Reconnect and Disconnect Charges	39,020	45,320
Miscellaneous	5,542	5,014
Total Other Charges and Miscellaneous	\$ 87,952	\$ 94,019
Total Operating Revenues	\$ 1,918,026	\$ 1,852,663
<b>Operating Expenses:</b>		
Accounting and Collecting Labor	\$ 103,633	\$ 96,727
Administrative Per Diem	16,200	16,200
Administrative Salaries	121,667	117,681
Depreciation Expense	451,230	447,682
Employee Benefits	53,643	51,149
Employee Licenses	236	-
Insurance	34,900	33,869
Maintenance of Mains/Distribution System	114,488	144,279
Office Supplies and Expense	40,776	41,919
Operating Labor	201,657	193,554
Other Interest Expense	118	72
Payroll Taxes	31,875	31,393
Professional Services	19,478	13,615
Purchased Power	147,636	139,062
Purchased Water	9,842	9,847
Regulatory Fees	4,141	3,559
Repairs & Maintenance	9,539	12,595
Retirement Plan Expense	130,999	100,169
Transportation Expense	25,587	28,028
Uniforms	6,475	9,892
Utilities & Telephone	16,706	12,992
Water Treatment Expense	6,765	6,665
Total Operating Expenses	\$ 1,547,591	\$ 1,510,949
<b>Operating Income</b>	\$ 370,435	\$ 341,714
<b>Nonoperating Revenue (Expense):</b>		
Investment Income	\$ 13,473	\$ 13,142
Interest Expense	(225,238)	(242,666)
Gain (Loss) on Sale/Abandonment of Fixed Assets	877	-
Total Nonoperating Revenue (Expense)	\$ (210,888)	\$ (229,524)
<b>Net Income (Loss) Before Contributions</b>	\$ 159,547	\$ 112,190
<b>Capital Contributions</b>	53,677	160,664
<b>Change in Net Position</b>	\$ 213,224	\$ 272,854
<b>Net Position--Beginning of Year</b>	5,622,695	5,349,841
<b>Net Position--End of Year</b>	\$ 5,835,919	\$ 5,622,695

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**STATEMENT OF CASH FLOWS**  
For the Years Ended December 31, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 1,900,844	\$ 1,866,602
Payments to Suppliers	(148,193)	(146,080)
Payments to Employees	(432,887)	(426,972)
Other Receipts (Payments)	(465,853)	(455,073)
Net Cash Provided (Used) by Operating Activities	\$ 853,911	\$ 838,477
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	\$ 17,680	\$ 24,720
Purchase of Capital Assets (including Work in Process)	(374,131)	(67,564)
Principal Paid on Capital Debt	(308,806)	(237,451)
Interest Paid on Capital Debt	(226,756)	(244,352)
Proceeds Build America Bonds Interest Reimbursement	11,537	11,651
Proceeds Sale of Capital Assets	2,412	-
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (878,064)	\$ (512,996)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	\$ (12,158)	\$ (11,824)
Interest Received	13,503	13,099
Net Cash Provided (Used) by Investing Activities	\$ 1,345	\$ 1,275
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (22,808)	\$ 326,756
Balances-Beginning of the Year	1,875,883	1,549,127
Balances-End of the Year	\$ 1,853,075	\$ 1,875,883

	Balances Per December 31, 2016 Statement of Net Position	Balances Per December 31, 2016 Statement of Cash Flows
Cash	\$ 991,924	\$ 991,924
Time Deposits	511,543	-
Restricted Cash	861,151	861,151
Restricted Time Deposits	466,042	-
Total Cash and Cash Equivalents, End of Year	\$ 2,830,660	\$ 1,853,075
	Balances Per December 31, 2015 Statement of Net Position	Balances Per December 31, 2015 Statement of Cash Flows
Cash	\$ 1,027,855	\$ 1,027,855
Time Deposits	505,181	-
Restricted Cash	848,028	848,028
Restricted Time Deposits	460,246	-
Total Cash and Cash Equivalents, End of Year	\$ 2,841,310	\$ 1,875,883

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**STATEMENT OF CASH FLOWS**  
For the Years Ended December 31, 2016 and 2015

	2016	2015
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 370,435	\$ 341,714
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	451,230	447,682
Pension Expense	59,161	27,819
Change in Assets and Liabilities:		
Receivables, Net	(19,948)	9,950
Inventories	(26,419)	9,853
Prepaid Expenses	(1,911)	1,399
Accounts Payable	4,467	(3,206)
Accrued Wages	2,042	(6,365)
Utility Tax Payable	(397)	(20)
Sales Tax Payable	123	(121)
Accrued Payroll Taxes & Employee Benefits	3,860	2,087
Customer Meter Deposits Payable	3,040	4,130
Accrued Compensated Absences	8,228	3,555
	<b>\$ 853,911</b>	<b>\$ 838,477</b>
Net Cash Provided by Operating Activities	<b>\$ 853,911</b>	<b>\$ 838,477</b>

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

At December 31, 2016, Carroll County Water District No. 1 had no outstanding obligations relating to the acquisition of plant assets. During the year, \$25,708 of system improvements were added to the District's capital assets through the completion of the Focus on Core Mission and Infrastructure Project. The debt associated with financing these improvements is included in the financial statements as Notes Payable - Carrollton Utilities and reduced by the amounts provided for debt forgiveness due to federal and state funding (\$12,854). Carroll County Water District No. 1 has included the debt reduction in capital contributions in its statement of revenues, expenses and changes in fund net position.

In 2015, increases of \$449,446 of system improvements were added to the District's capital assets through the Focus on Core Mission and Infrastructure Project and Carroll County Interconnect Project. The debt associated with financing these improvements is included in the financial statements as Notes Payable - Carrollton Utilities. The gross amount of the debt (note payable) was reduced by the amounts provided for debt forgiveness due to federal and state funding (\$124,293). Carroll County Water District No. 1 has included the debt reduction in capital contributions in its statement of revenues, expenses and changes in fund net position. Additionally, the District had \$50,000 included in accounts payable - capital assets for its contribution toward the projects.

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

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

Description of entity: Carroll County Water District No. 1 is a rural water company serving approximately 3,000 customers in Carroll, Owen and Gallatin Counties, Kentucky of which 162 are considered commercial and 32 are industrial users, or large users. The District is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of Carroll County through its fiscal court in 1960 and began operations in 1965.

In evaluating how to define Carroll County Water District No. 1 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 (i.e., total assets plus deferred outflows of resources net of total liabilities and deferred inflows of resources) are 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.

CARROLL COUNTY WATER DISTRICT NO. 1  
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
December 31, 2016 and 2015

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

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

**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. 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	10-35 years
- Distribution System	10-45 years
- Wells	35 years
- Machinery & Equipment	5-30 years

**Debt Issuance Costs:** Such costs are expensed as incurred.

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

**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 Carroll County Water District No. 1 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. Tap on fees of \$29,286 and \$24,720 were received by the District for the years ended December 31, 2016, and 2015, respectively. Additional capital contributions of \$12,854 and \$124,293 Grant Funds (debt forgiveness), and \$11,537 and \$11,651 Build America Bonds interest reimbursements were received by the District during the years ended December 31, 2016 and 2015.

**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, Carroll County Water District No. 1 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.



**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2016 and 2015**

**NOTE 2 – DEBT RESTRICTIONS AND COVENANTS**

The Bond and Interest Sinking Account was to be established with the District’s original bond issue. 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, the monthly transfer to be made into the account for the outstanding bond issues is as follows:

- one sixth (1/6) of the next semiannual interest payment
- + one twelfth (1/12) of next annual principal payment
- = monthly transfer

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2016 and 2015.

Under the bond resolution of the original 1965 bonds (now redeemed), a Depreciation Account was to be established to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. Under the provisions of the 1994 Bond Resolution, an adjustment was required to be made in the Depreciation Fund requirements upon the issuance of any bonds on a parity with the Series 1994 bonds. Therefore, with the issuance of subsequent bonds, additional transfer requirements were established as follows:

Series	Transfer Due	Accumulation Required
1999 A & B	\$2,090/month	\$250,800
2005 A & B	525/month	63,000
2010	510/month	61,200
Total		\$375,000

The 1994, 1997 A & B, and 1999 Series A & B issues were refunded with the issuance of the 2012B Bond Issue. The issue of 2012 ratified and confirmed the transfers required above to continue in force.

When the required balance of \$375,000 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. The Depreciation Account is to be maintained as long as any of the bonds are outstanding.

Under the District’s debt agreement with the Kentucky Infrastructure Authority (KIA) a R&M Reserve is to be funded. \$7,500 is to be transferred annually into the reserve until a balance of \$75,000 is obtained.

A separate reserve has not been established for the Kentucky Infrastructure Authority reserve. However, the District has funded reserve accounts sufficient to fund the maximum accumulation mandated in the 1999 bond agreement plus the KIA’s required balance at December 31, 2016 and 2015. The District transferred the monthly amounts required under the Series 2005 A and B bond agreement, and the additional \$510 payment required by the 2010 Series bond agreement during 2016 and 2015.

After the required monthly transfers to the respective bond and interest account, and depreciation account, a transfer of one-twelfth (1/12) of the annual budgeted expenditures for the District is to be transferred to an operation and maintenance account for making expenditures for the District. Sixty days following year end, all remaining funds in the revenue account in excess of two (2) months operating budget requirements are to be transferred to the depreciation account.

The District has not set up a separate revenue account. At December 31, 2015, \$238,864 was calculated as the required transfer to be made and was considered restricted at December 31, 2015. This amount was transferred into the Depreciation Reserve in 2016. At December 31, 2016 an additional transfer was not necessary.

**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

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2016 and 2015**

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

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, 2016 and 2015, in accordance with the District's policy, \$604,291 and \$604,496 respectively, of the District's deposits were covered by federal depository insurance and \$2,240,329 and \$2,260,445 respectively, were collateralized by securities held by the pledging financial institution's agent in the District's name. Thus the District had no deposits that were exposed to custodial credit risk.

At December 31, 2016 and 2015, the District's deposits were as follows:

**December 31, 2016**

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,867,035	\$ 1,852,975
Time/Savings Deposits	977,585	977,585
<b>Total Deposits</b>	<b>\$ 2,844,620</b>	<b>\$ 2,830,560</b>

**December 31, 2015**

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,899,514	\$ 1,875,783
Time/Savings Deposits	965,427	965,427
<b>Total Deposits</b>	<b>\$ 2,864,941</b>	<b>\$ 2,841,210</b>

**Reconciliation to Statement of Net Position:**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unrestricted Cash	\$ 1,503,467	\$ 1,533,036
Restricted Cash, Including Time Deposits	1,327,193	1,308,274
Less: Cash on Hand	(100)	(100)
	<b>\$ 2,830,560</b>	<b>\$ 2,841,210</b>

**NOTE 4 – RESTRICTED ASSETS**

Restricted assets consists of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Restricted Cash and Time Deposits		
Bond and Interest Sinking Account	\$ 345,838	\$ 341,688
Depreciation Reserve Account	955,768	937,038
Customer Deposits	25,587	22,547
Construction	-	7,001
<b>Total</b>	<b>\$ 1,327,193</b>	<b>\$ 1,308,274</b>
Interest Receivable - Depreciation Reserve Accounts	\$ 96	\$ 110

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
December 31, 2016 and 2015

**NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE**

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$2,314 and \$2,444 at December 31, 2016 and 2015, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

**NOTE 6 – 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 market rate. Accrued interest is paid annually and when the deposit is refunded.

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2016 and 2015, was as follows:

	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016
Land & Land Rights	\$ 277,816	\$ 33,644	\$ -	\$ 311,460
Structures & Improvements	325,927	-	-	325,927
Distribution System	14,556,763	302,660	(24,994)	14,834,429
Wells	525,978	-	-	525,978
Machinery & Equipment	687,398	111,260	(19,775)	778,883
Construction in Process	97,725	25,708	(123,433)	-
Totals at Historical Cost	<u>\$ 16,471,607</u>	<u>\$ 473,272</u>	<u>\$ (168,202)</u>	<u>\$ 16,776,677</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 140,519	\$ 8,044	\$ -	\$ 148,563
Distribution System	5,578,489	390,822	(23,459)	5,945,852
Wells	274,788	15,028	-	289,816
Machinery & Equipment	476,162	37,336	(19,775)	493,723
Total Accumulated Depreciation	<u>\$ 6,469,958</u>	<u>\$ 451,230</u>	<u>\$ (43,234)</u>	<u>\$ 6,877,954</u>
Capital Assets, Net	<u>\$ 10,001,649</u>	<u>\$ 22,042</u>	<u>\$ (124,968)</u>	<u>\$ 9,898,723</u>
	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015
Land & Land Rights	\$ 277,816	\$ -	\$ -	\$ 277,816
Structures & Improvements	318,245	7,682	-	325,927
Distribution System	14,152,560	404,203	-	14,556,763
Wells	525,978	-	-	525,978
Machinery & Equipment	681,340	18,371	(12,313)	687,398
Construction in Process	13,252	449,446	(364,973)	97,725
Totals at Historical Cost	<u>\$ 15,969,191</u>	<u>\$ 879,702</u>	<u>\$ (377,286)</u>	<u>\$ 16,471,607</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 131,776	\$ 8,743	\$ -	\$ 140,519
Distribution System	5,187,053	391,436	-	5,578,489
Wells	259,758	15,030	-	274,788
Machinery & Equipment	456,002	32,473	(12,313)	476,162
Total Accumulated Depreciation	<u>\$ 6,034,589</u>	<u>\$ 447,682</u>	<u>\$ (12,313)</u>	<u>\$ 6,469,958</u>
Capital Assets, Net	<u>\$ 9,934,602</u>	<u>\$ 432,020</u>	<u>\$ (364,973)</u>	<u>\$ 10,001,649</u>

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
December 31, 2016 and 2015

**NOTE 7 – CAPITAL ASSETS (Continued)**

Included under the District's Plant Assets at December 31, 2016 and 2015, respectively, were \$946,932 and \$887,604 of fully depreciated assets. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$451,230 and \$447,682 in 2016 and 2015, respectively.

**NOTE 8 – LONG-TERM DEBT**

**Notes Payable:**

The Carroll County Water District No. 1 has entered into interlocal agreements under which it is the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Focus on Core Mission and Infrastructure Project and the Carroll County Interconnect Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. It is also the entity overseeing the engineering and construction contracts, and other general costs associated with the projects. Carroll County Water District No. 1, under interlocal agreements with the City of Carrollton/Carrollton Utilities, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. At December 31, 2015, Carroll County Water District No. 1's portion of the Carroll County Interconnect Project was complete. The Focus on Core Mission and Infrastructure Project was completed in 2016. The District chose to repay the total debt associated with the Focus on Core Mission and Infrastructure Project in December, 2016.

As of December 31, 2016 and 2015, the long-term debt payable consisted of the following:

**Notes Payable:**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Kentucky Infrastructure Authority represents a 20 year loan, original principal of \$1,908,662, secured by water revenues. Interest is charged at 3% per annum. Payments are made semi-annually. Final maturity is December 1, 2024.	\$ 901,589	\$ 999,926
Carrollton Utilities (Carroll County Interconnect Project) represents a 30 year loan as stipulated in an interlocal agreement. Interest is charged at .75% per annum. In addition, a loan servicing fee of .25% of the annual outstanding loan balance is payable as a part of each interest payment. The original principal balance was \$301,721 before the note was reduced by 25% principal forgiveness of \$75,430. Semi-annual payments with final maturity December 1, 2045.	219,538	226,291
Carrollton Utilities (Focus on Core Mission and Infrastructure Project) represents a 30 year loan as stipulated in an interlocal agreement. Interest is charged at .75% per annum. In addition, a loan servicing fee of .20% of the annual outstanding loan balance is payable as part of each interest payment. The original principal balance was \$123,433 before the note was reduced by 50% principal forgiveness of \$61,716. Semi-annual payments with final maturity December 1, 2045, early payoff occurred in December, 2016.	-	48,862
<b>Total Notes Payable</b>	<b>\$ 1,121,127</b>	<b>\$ 1,275,079</b>
Current Portion	\$ 108,112	\$ 106,547
Noncurrent Portion	1,013,015	1,168,532
<b>Total Notes Payable</b>	<b>\$ 1,121,127</b>	<b>\$ 1,275,079</b>

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2016 and 2015**

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

**Bonds Payable:**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
RECD Revenue Bonds of 2005 Series A, original issue amount of \$592,000, secured by water revenues. Interest is charged at the rate of 4.375% per annum. Final maturity is September 1, 2044.	\$ 514,000	\$ 523,000
RECD Revenue Bonds of 2005 Series B, original issue amount of \$319,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is September 1, 2044.	275,500	280,500
RECD Revenue Bonds of 2010, (Build America Bonds – Direct Payment), original issue amount of \$1,246,000, secured by water revenues. Interest is charged at the rate of 3% per annum. Final maturity is September 1, 2049.	1,161,000	1,179,000
Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program) Series 2012 (B), original issue (District Share) \$3,785,000, secured by water revenues. Interest is charged at the rates of 2.2% - 4.2% per annum. Final maturity is January 1, 2039.	3,355,000	3,465,000
<b>Total Bonds Payable</b>	<u>\$ 5,305,500</u>	<u>\$ 5,447,500</u>

**Bonds Payable:**

Current Portion	\$ 144,500	\$ 142,000
Noncurrent Portion	5,161,000	5,305,500
<b>Total Bonds Payable</b>	<u>\$ 5,305,500</u>	<u>\$ 5,447,500</u>

**Accrued Compensated Absences:**

Current Portion	\$ 40,836	\$ 32,608
Noncurrent Portion	-	-
<b>Total Accrued Compensated Absences</b>	<u>\$ 40,836</u>	<u>\$ 32,608</u>

**Bonds Payable – U.S. Department of Agriculture – Rural Development, Series 2010**

On November 11, 2010, the Carroll County Water District No. 1 issued \$1,246,000 Taxable Waterworks Revenue Bonds, Series 2010 with an interest rate of 3%. The proceeds were used to finance the 2007 water system improvement project. The first interest payment was due March 1, 2011. The first principal payment was due September 1, 2012. The final payment will be due September 1, 2049. These bonds are taxable Build America Bonds. As such, the District will receive annual federal credit payments toward the debt service of approximately 35% of each interest payment due. The credit will amount to \$319,024 over the life of the issue.

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2016 and 2015**

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

**Changes in Long-term Debt**

The following is a summary of changes in long-term debt for the years ended December 31, 2016 and 2015.

**December 31, 2016**

	Balance at January 1, 2016	Additions	Retirements	Balance at December 31, 2016	Current Portion
Notes Payable	\$ 1,275,079	\$ 12,854	\$ (166,806)	\$ 1,121,127	\$ 108,112
Bonds Payable	5,447,500	-	(142,000)	5,305,500	144,500
Accrued Compensated Absences	32,608	19,749	(11,521)	40,836	40,836
<b>Total Enterprise Fund Debt</b>	<b>\$ 6,755,187</b>	<b>\$ 32,603</b>	<b>\$ (320,327)</b>	<b>\$ 6,467,463</b>	<b>\$ 293,448</b>

**December 31, 2015**

	Balance at January 1, 2015	Additions	Retirements	Balance at December 31, 2015	Current Portion
Notes Payable	\$ 1,095,377	\$ 275,153	\$ (95,451)	\$ 1,275,079	\$ 106,547
Bonds Payable	5,589,500	-	(142,000)	5,447,500	142,000
Accrued Compensated Absences	29,053	3,555	-	32,608	32,608
<b>Total Enterprise Fund Debt</b>	<b>\$ 6,713,930</b>	<b>\$ 278,708</b>	<b>\$ (237,451)</b>	<b>\$ 6,755,187</b>	<b>\$ 281,155</b>

The annual requirements for all long-term debt outstanding at December 31, 2016, are as follows:

Due	Note Payable	Note Payable Interest	Service Fee	Bonds	Bonds Interest	Trustee Fee	Federal Credit Interest Payment	Total Principal, Interest, Trustee Fee & Servicing Fee
2017	\$ 108,112	\$ 27,927	\$ 2,736	\$ 144,500	\$ 175,940	\$ 450	\$ 12,191	\$ 471,856
2018	111,225	24,814	2,464	150,500	171,854	450	11,991	473,298
2019	114,432	21,608	2,183	157,000	166,976	450	11,781	474,430
2020	117,733	18,306	1,895	163,000	161,937	450	11,571	474,892
2021	121,134	14,906	1,599	170,500	156,655	450	11,351	476,595
2022-2026	399,337	25,657	3,722	923,000	698,917	2,250	53,141	2,106,024
2027-2031	37,218	4,970	1,657	1,101,000	530,577	2,250	46,305	1,723,977
2032-2036	38,638	3,550	1,183	1,243,000	311,750	2,250	38,136	1,638,507
2037-2041	40,111	2,076	692	706,500	112,208	1,350	28,382	891,319
2042-2046	33,187	563	187	379,500	36,785	-	16,727	466,949
2047-2050	-	-	-	167,000	6,802	-	3,216	177,018
	<b>\$ 1,121,127</b>	<b>\$ 144,377</b>	<b>\$ 18,318</b>	<b>\$ 5,305,500</b>	<b>\$ 2,530,401</b>	<b>\$ 10,350</b>	<b>\$ 244,792</b>	<b>\$ 9,374,865</b>

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

Due	Note Payable	Note Payable Interest	Service Fee	Bonds	Bonds Interest	Trustee Fee	Federal Credit Interest Payment	Total Principal, Interest, Trustee Fee & Servicing Fee
2016	\$ 106,547	\$ 31,314	\$ 3,122	\$ 142,000	\$ 179,374	\$ 450	\$ 12,380	\$ 475,187
2017	109,581	28,280	2,853	144,500	175,940	450	12,191	473,795
2018	112,706	25,156	2,577	150,500	171,854	450	11,991	475,234
2019	115,923	21,939	2,294	157,000	166,976	450	11,781	476,363
2020	119,236	18,626	2,002	163,000	161,937	450	11,571	476,822
2021-2025	520,876	40,829	5,410	895,500	727,745	2,250	54,369	2,246,979
2026-2030	44,917	6,380	2,127	1,060,500	568,222	2,250	47,775	1,732,171
2031-2035	46,630	4,667	1,556	1,226,000	358,365	2,250	39,890	1,679,358
2036-2040	48,408	2,888	963	876,500	141,164	1,800	30,471	1,102,194
2041-2045	50,255	1,042	347	412,000	47,107	-	19,226	529,977
2046-2050	-	-	-	220,000	11,092	-	5,528	236,620
	<b>\$ 1,275,079</b>	<b>\$ 181,121</b>	<b>\$ 23,251</b>	<b>\$ 5,447,500</b>	<b>\$ 2,709,776</b>	<b>\$ 10,800</b>	<b>\$ 257,173</b>	<b>\$ 9,904,700</b>

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
December 31, 2016 and 2015

**NOTE 9 – COMPENSATED ABSENCES**

Employees receive one half sick day per month for sick time. A maximum of six months sick leave can be accumulated. Unused sick time accumulated is added to service time at retirement from the District. Vacation days accumulate as follows:

At the end of 1st year	-	1 week
At the end of 3rd year	-	2 weeks
At the end of 10th year	-	3 weeks
At the end of 15th year	-	4 weeks

Unused vacation may be carried into the next calendar year.

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, (included in current accrued compensated absences) the District accrues a liability for sick pay which has been earned but not taken by District employees of retirement age. However, no employees were eligible for retirement at December 31, 2016 and 2015, respectively. Sick leave accumulated but not accrued at December 31, 2016 and 2015 was \$35,424 and \$35,472, respectively. At December 31, 2016 and 2015, a liability for accrued vacation due was recorded in the amount of \$40,836 and \$32,608, respectively.

**NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION**

	December 31, 2016	December 31, 2015
Restricted Capital Projects:		
Monies Reserved for Future Construction	\$ -	\$ 7,001
Total Restricted for Capital Projects	\$ -	\$ 7,001
Restricted for Debt Service:		
RECD Revenue Bonds of 2005 Series A, B & C, 2010 Series, Kentucky Rural Water Refunding Revenue Bonds, Series 2012 B and Kentucky Infrastructure Authority Note Payable		
Cash	\$ 1,301,606	\$ 1,278,726
Add: Accrued Interest Receivable	96	110
Less: Accrued Interest Payable	(71,999)	(73,415)
Total Restricted for Debt Service	\$ 1,229,703	\$ 1,205,421

**NOTE 11 – INTEREST EXPENSE**

Interest expense incurred for the years ended December 31, 2016 and 2015 was \$225,356 and \$242,738, respectively. No interest was capitalized in 2016 or 2015.

**NOTE 12 – 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, 2016, may be obtained from <https://kyret.ky.gov/Audit%20Reports/Audit%20Report%20June%2030,%202015-2016.pdf>. Additionally, the Kentucky Retirement System issues a publically available financial report that includes the Schedules of Employer Allocations and Pension amounts by Employer. The most recent report, dated June 30, 2016 may be obtained from <https://kyret.ky.gov/Audited%20Report%20Links/KRS%206-30-16%20Proportionate%20Share%20Audit%20Report.pdf>.

CARROLL COUNTY WATER DISTRICT NO. 1  
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
 December 31, 2016 and 2015

**NOTE 12 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
 (Continued)

**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. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS’ gains and losses on investments bought and sold as well as held during the fiscal year.

**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

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.



**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2016 and 2015**

**NOTE 12 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
**(Continued)**

**Contributions** - For the fiscal years ended June 30, 2016 and 2015, 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. The 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, 2016 and 2015, participating employers contributed 17.06% and 17.67%, respectively, of each employee’s creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2016 and 2015, were 17.06% and 17.67%, 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. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

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.

***Methods and Assumptions Used in Calculation of Actuarially Determined Contributions***

Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2015, 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. Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2016, the actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. 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	27 years (2016); 28 years (2015)
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

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2016 and 2015**

**NOTE 12 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
**(Continued)**

***Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Continued)***

There were no changes of benefit terms during the years ended June 30, 2016 and 2015.

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

Inflation	3.25%
Salary Increases	4%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

<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>	

The projection of cash flows used to determine the discount rate assumed that the employer would contribute the actuarially determined contribution rate of projected compensation. The remaining amortization period of the unfunded actuarial accrued liability is 27 years. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the close payroll for existing members.

The actuarial valuation date upon which the total pension liability was based is June 30, 2015. An expected total pension liability is determined as of June 30, 2016, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, then applies the expected investment rate of return for the year. No update procedures were used to determine the total pension liability as of June 30, 2015.

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 actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The long term assumed rate of return was based upon an analysis adopted by the Board of Trustees on December 3, 2015. The discount rate used to measure the total pension liability remained at 7.5%. The long term assumed investment rate of return and discount rate were based upon an analysis adopted by the Board of Trustees on December 3, 2015.

CARROLL COUNTY WATER DISTRICT NO. 1  
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
 December 31, 2016 and 2015

**NOTE 12 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN**  
 (Continued)

*Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Continued)*

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. 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 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 projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability.

The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

*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, 2016 and 2015], calculated using the discount rate of 7.5%, as well as what CERS’ net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

<u>As of June 30, 2016</u>	<u>1% Decrease [6.5%]</u>	<u>Current Discount [7.5%]</u>	<u>1% Increase [8.5%]</u>
Net Pension Liability	\$ 6,135,625,606	\$ 4,923,618,237	\$ 3,884,686,628
District's Proportionate Share	1,011,441	811,645	640,380
<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	899,299	704,435	537,551

*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, 2016, and 2015 the District reported a liability of \$811,645 and \$704,435, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2016, and 2015 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, 2016, and 2015 the District’s proportion was 0.01648 and 0.01638 percent, respectively, which is an increase of .0010% for the year ended June 30, 2016 and a decrease of .00009% for the year ended June 30, 2015.

CARROLL COUNTY WATER DISTRICT NO. 1  
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
 December 31, 2016 and 2015

**NOTE 12 – 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)*

The District’s total payroll for the fiscal year ended December 31, 2016 was \$439,913. Contributions to CERS were based on \$400,856 (eligible gross wages). The total employer contributions for the year ended December 31, 2016 were \$71,839.

The District’s total payroll for the fiscal year ended December 31, 2015, was \$433,068. Contributions to CERS were based on \$394,012 (eligible gross wages). The total employer pension contributions for the year ended December 31, 2015, were \$68,368.

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, 2016, and 2015 was 0.01648 and 0.01638 percent, respectively, of the System’s total contribution requirements for all employers.

For the year ended December 31, 2016, and December 31, 2015, the District recognized pension expense of \$130,999 and \$100,169, respectively. At December 31, 2016 and 2015 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	<u>December 31, 2016</u>		<u>December 31, 2015</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	\$ 3,543	\$ -	\$ 5,854	\$ -
Change in Assumptions	42,997	-	71,035	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	2,699	1,450	-	2,410
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	76,303	-	6,315	-
District Contributions Made Subsequent to the NPL Measurement Date	39,812	-	35,061	-
<b>Total</b>	<u>\$ 165,354</u>	<u>\$ 1,450</u>	<u>\$ 118,265</u>	<u>\$ 2,410</u>

\$39,812 and \$35,061 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, 2017 and 2016. 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:

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
 December 31, 2016 and 2015

**NOTE 12 – 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)*

Year Ended December 31, 2016:	Increase (Decrease) to Pension Expense
2017	\$ 45,576
2018	31,320
2019	30,241
2020	16,955
	\$ 124,092

Year Ended December 31, 2015:	Increase (Decrease) to Pension Expense
2016	\$ 27,502
2017	27,502
2018	12,962
2019	12,828
	\$ 80,794

***Payable to the Pension Plan***

At December 31, 2016 and 2015, the District reported a payable of \$10,393 and \$9,379, respectively for the outstanding amount 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 13 – ECONOMIC DEPENDENCY**

Carroll County Water District No. 1 provides water services to residential, commercial and industrial customers. It should be noted that 19.5% and 20.4% of total water revenue was received from two industries, North American Stainless and Gallatin Steel, for the years ended December 31, 2016 and 2015.

**NOTE 14 – 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. Each of these risks is covered through premiums paid to Kentucky Association of Counties All Lines Fund. The District is also subject to the risks associated with employee injury. These risks are covered through premiums paid to the Kentucky Association of Counties, Workers’ Compensation Self-insurance Fund. Such coverage is retrospectively rated and premiums may be adjusted based on experience.

**NOTE 15 – BAD DEBT EXPENSE**

Water revenue charges have been netted with an estimated bad debt expense of \$9,766 and \$23,250 at December 31, 2016 and 2015, respectively.

**NOTE 16 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS**

Carroll County Water District No. 1, has entered into a water resale agreement with Kentucky American Water Company to supply Kentucky American Water Company’s customers in the area of Wheatley, Kentucky. Under this agreement, as amended September 15, 2013, Carroll County Water District No. 1 will sell its water to the Kentucky American Water Company at a price of \$2.26 per 1,000 gallons. The agreement is for a term of 20 years with automatic one-year extensions unless terminated by either party upon one year’s written notice. Rates may be modified by providing 120 days notice or by action of the Public Service Commission.

CARROLL COUNTY WATER DISTRICT NO. 1  
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
December 31, 2016 and 2015

**NOTE 16 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Continued)**

The District has entered into a 99 year lease with the City of Ghent for the use of one of the City's buildings. The District paid the City \$15,000 for the lease. The prepayment is being amortized over the life of the lease.

**NOTE 17 – 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.

**NOTE 18 – REISSUED FINANCIAL STATEMENTS**

During the analysis of the pension plan's audit report for the year ended June 30, 2016, it was discovered that the transactions associated with the pension plan as reported by Kentucky Retirement Systems in its reports for the fiscal years ended June 30, 2015 and 2014, had been misinterpreted and presented incorrectly in the District's audit report for the year ended December 31, 2015 [audit report dated June 17, 2016]. To correct this 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 as required by GASB 68, the audit report on the District's Comparative Financial Statements for the years ending December 31, 2015 and 2014 has been reissued concurrently with the audit report for the year ended December 31, 2016.

**CARROLL COUNTY WATER DISTRICT NO. 1**

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

**Last Three Fiscal Years\***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.01648%	0.01638%	0.01649%
District's proportionate share of the net pension liability (asset)	\$ 811,645	\$ 704,435	\$535,000
District's covered-employee payroll	\$ 400,856	\$ 394,012	\$382,520
District's proportionate share of the net pension liability (asset) as a percentage of its of its covered-employee payroll	202.48%	178.79%	139.86%
Plan fiduciary net position as a percentage of the total pension liability	55.5%	60.3%	62.6%

\*Calculations are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and Pension Amounts by Employer for the fiscal years ended June 30, shown. District payroll is reported for its' covered calendar years ending December 31, 2014 through 2016.

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.

**CARROLL COUNTY WATER DISTRICT NO. 1**

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

**County Employees Retirement System**

**Fiscal Years Ended December 31**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contributions	\$ 71,839	\$ 68,368	\$ 69,894	\$ 70,791
Contributions in relation to the contractually required contributions	71,839	68,368	69,894	70,791
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 400,856	\$ 394,012	\$ 382,520	\$ 368,490
Contributions as a percentage of covered-employee payroll	17.92%	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

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008  
502-732-6655 • taxes@rzwcpcas.com

Dennis S. Raisor, CPA  
Jerilyn P. Zapp, CPA  
Jeffery C. Woods, CPA  
Susan A. Dukes, CPA

## 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  
Carroll County Water District No. 1  
Ghent, KY 41045

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 Carroll County Water District No. 1 as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Carroll County Water District No. 1's basic financial statements and have issued our report thereon dated June 23, 2017.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Carroll County Water District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Carroll County Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Carroll County Water District No. 1'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 2016-001 and 2016-002).

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Carroll County Water District No. 1'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*.

**CARROLL COUNTY WATER DISTRICT NO. 1'S RESPONSE TO FINDINGS**

Carroll County Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Carroll County Water District No. 1'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, P.S.C.*

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

June 23, 2017

**CARROLL COUNTY WATER DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2016**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Carroll County Water District No. 1 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 2016-001 and 2016-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Carroll County Water District No. 1 were disclosed during the audit.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**DEFICIENCIES IN INTERNAL CONTROL**

**GOVERNMENT AUDITING STANDARDS**

**2016-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES**

**CONDITION:**

District personnel have implemented sound oversight procedures over cash reconciliations and the monthly billing and expense disbursement processes. However, instances were observed where postings to the District's general ledger were not made to the appropriate account (expense vs. capital or liability accounts).

**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:**

An emphasis is placed on the District's cash position and profit and loss statement. A review and reconciliation of balance sheet accounts other than cash is not consistently performed.

**EFFECT:**

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

**RECOMMENDATION:**

Management should consider financial statement implications when posting to the general ledger to ensure accurate balances.

**RESPONSE:**

We concur with the recommendation. Management will enhance the monthly review and checking procedures associated with its financial information.

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
For the Year Ended December 31, 2016

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

**DEFICIENCIES IN INTERNAL CONTROL (Continued)**

**GOVERNMENT AUDITING STANDARDS (Continued)**

**2016-002 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, 2015 as 2015-002.

**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 assist with the preparation of the draft financial statements, including the related notes.

**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**