

NORTH MARSHALL WATER DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016 AND 2015

NORTH MARSHALL WATER DISTRICT

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INTRODUCTORY SECTION

**NORTH MARSHALL WATER DISTRICT
DIRECTORY**

December 31, 2016

BOARD MEMBERS

Kendra Capps, Chairman
Kenneth Shadowen
Billy Driskill
Joe Draffen
James Leonard

MANAGEMENT TEAM

Bobby Gifford, Interim Superintendent
Kimberly Smith, Bookkeeper

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



Independent Auditor's Report

Board of Commissioners
North Marshall Water District
Benton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the North Marshall Water District (the District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 District'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 District, as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the required schedules for pensions as listed in the table of contents 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 response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and other information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Jackson, Tennessee
April 14, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the North Marshall Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2016 and 2015. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is strong. The District is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets and deferred outflows at year-end were \$10.07 million and exceeded liabilities in the amount of \$5.30 million (i.e. net position).
- Total assets increased by \$1.49 million, mainly due to a significant amount of capital asset additions.
- Operating revenues were \$1.63 million, an increase from year 2015 in the amount of \$68 thousand or 4.33%.
- Operating expenses were \$1.56 million, an increase from year 2015 in the amount of \$46 thousand or 3.03%.
- The operating income for the year was \$65 thousand as compared to \$43 thousand in 2015.
- Ratios of operating income (loss) to total operating revenue were .040 and .028 for 2016, and 2015, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the supplementary and other information section, 4) and the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The supplementary and other information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The *Statement of Net Position* includes all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

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

FINANCIAL ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates. The District's total net position increased by \$1,053,835 for the fiscal year ended December 31, 2016. The District's total net position decreased by \$462,839 for the fiscal year ended December 31, 2015. The analysis below focuses on the District's net position (Table 1A & 1B) and changes in net position (Table 2A & 2B) during the year.

Table 1A
CONDENSED STATEMENT OF NET POSITION

	December 31, 2016	December 31, 2015	Increase (Decrease)	
			\$	%
Current and other assets	\$ 1,274,299	\$ 1,133,799	\$ 140,500	12.39%
Restricted noncurrent assets	53,417	48,563	4,854	10.00%
Capital assets	8,533,304	7,185,396	1,347,908	18.76%
Total assets	9,861,020	8,367,758	1,493,262	17.85%
Deferred outflows of resources	208,603	139,233	69,370	49.82%
Long-term liabilities	4,686,502	4,010,061	676,441	16.87%
Other liabilities	86,453	254,097	(167,644)	-65.98%
Total liabilities	4,772,955	4,264,158	508,797	11.93%
Net investment in capital assets	4,683,304	3,869,162	814,142	21.04%
Unrestricted	613,364	373,671	239,693	64.15%
Total net position	\$ 5,296,668	\$ 4,242,833	\$ 1,053,835	24.84%

Table 1B
CONDENSED STATEMENTS OF NET POSITION

	December 31, 2015	December 31, 2014	Increase (Decrease)	
			\$	%
Current and other assets	\$ 1,133,799	\$ 510,230	\$ 623,569	122.21%
Restricted noncurrent assets	48,563	48,623	(60)	-0.12%
Capital assets	7,185,396	4,876,435	2,308,961	47.35%
Total assets	<u>8,367,758</u>	<u>5,435,288</u>	<u>2,932,470</u>	53.95%
Deferred outflows of resources	139,233	-	139,233	100.00%
Long-term liabilities	4,010,061	323,365	3,686,696	1140.10%
Other liabilities	254,097	406,251	(152,154)	-37.45%
Total liabilities	<u>4,264,158</u>	<u>729,616</u>	<u>3,534,542</u>	484.44%
Net investment in capital assets	3,869,162	4,472,768	(603,606)	-13.50%
Unrestricted	373,671	232,904	140,767	60.44%
Total net position	<u>\$ 4,242,833</u>	<u>\$ 4,705,672</u>	<u>\$ (462,839)</u>	-9.84%

The increase in capital assets in 2016 and 2015 was due to the continued work on the various projects the District has in process. Total liabilities increased during the current year due a new USDA Series 2014 bond being issued.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expense, and Changes in Net Position for the year.

Table 2A
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	December 31, 2016	December 31, 2015	Increase (Decrease)	
			\$	%
Operating revenues	\$ 1,629,570	\$ 1,561,994	\$ 67,576	4.33%
Non-operating revenues	1,241	642	599	93.30%
Total revenues	<u>1,630,811</u>	<u>1,562,636</u>	<u>68,175</u>	4.36%
Costs of sales and services	186,007	177,720	8,287	4.66%
Customer accounts expense	35,822	34,927	895	2.56%
Administrative and general expenses	685,363	660,703	24,660	3.73%
Maintenance expense	325,135	316,869	8,266	2.61%
Provision for depreciation	332,592	328,737	3,855	1.17%
Non-operating expenses	15,901	18,240	(2,339)	-12.82%
Total expenses	<u>1,580,820</u>	<u>1,537,196</u>	<u>43,624</u>	2.84%
Capital contributions	1,003,844	-	1,003,844	100.00%
Change in net position	1,053,835	25,440	1,028,395	4042.43%
Beginning net position	4,242,833	4,705,672	(462,839)	-9.84%
Restatement - GASB Statement No. 68 implementation	-	(488,279)	488,279	-100.00%
Net position - beginning - restated	<u>4,242,833</u>	<u>4,217,393</u>	<u>25,440</u>	0.60%
Ending net position	<u>\$ 5,296,668</u>	<u>\$ 4,242,833</u>	<u>\$ 1,053,835</u>	24.84%

Table 2B
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	December 31, 2015	December 31, 2014	Increase (Decrease)	
			\$	%
Operating revenues	\$ 1,561,994	\$ 1,452,922	\$ 109,072	7.51%
Non-operating revenues	642	425	217	51.06%
Total revenues	<u>1,562,636</u>	<u>1,453,347</u>	<u>109,289</u>	<u>7.52%</u>
Costs of sales and services	177,720	180,084	(2,364)	-1.31%
Customer accounts expense	34,927	31,981	2,946	9.21%
Administrative and general expenses	660,703	596,809	63,894	10.71%
Maintenance expense	316,869	289,733	27,136	9.37%
Provision for depreciation	328,737	302,831	25,906	8.55%
Non-operating expenses	18,240	25,034	(6,794)	-27.14%
Total expenses	<u>1,537,196</u>	<u>1,426,472</u>	<u>110,724</u>	<u>7.76%</u>
Capital contributions	-	63,371	(63,371)	-100.00%
Change in net position	<u>25,440</u>	<u>90,246</u>	<u>(64,806)</u>	<u>-71.81%</u>
Beginning net position	4,705,672	4,615,426	90,246	1.96%
Restatement - GASB Statement No. 68 implementation	(488,279)	-	(488,279)	-100.00%
Net position - beginning - restated	<u>4,217,393</u>	<u>4,615,426</u>	<u>(398,033)</u>	<u>-8.62%</u>
Ending net position	<u>\$ 4,242,833</u>	<u>\$ 4,705,672</u>	<u>\$ (462,839)</u>	<u>-9.84%</u>

Operating revenues showed 4.33% and 7.51% increases in 2016 to 2015, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016 the system had \$8.53 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, distribution systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, utility plant in service, and construction in progress.

The following tables summarizes the District's capital assets, net of accumulated depreciation, and changes therein, for the years ended December 31, 2016 and 2015. These changes are presented in detail in Note 3E to the financial statements.

Table 3A
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	December 31, 2016	December 31, 2015	Increase (Decrease)	
			\$	%
Land	\$ 143,164	\$ 143,164	\$ -	0.00%
Utility plant in service	10,342,173	10,199,283	142,890	1.40%
Construction in progress	4,491,686	2,954,076	1,537,610	52.05%
Accumulated depreciation	(6,443,719)	(6,111,127)	(332,592)	5.44%
Total capital assets	<u>\$ 8,533,304</u>	<u>\$ 7,185,396</u>	<u>\$ 1,347,908</u>	<u>18.76%</u>

Table 3B
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	December 31, 2015	December 31, 2014	Increase (Decrease)	
			\$	%
Land	\$ 143,164	\$ 143,164	\$ -	0.00%
Utility plant in service	10,199,283	10,059,725	139,558	1.39%
Construction in progress	2,954,076	455,936	2,498,140	547.91%
Accumulated depreciation	(6,111,127)	(5,782,390)	(328,737)	5.69%
Total capital assets	<u>\$ 7,185,396</u>	<u>\$ 4,876,435</u>	<u>\$ 2,308,961</u>	47.35%

Debt Administration

The District has outstanding bonds and notes payable of \$3.85 million as of December 31, 2016. Principal payments are due in the upcoming fiscal year in the amount of \$0 with interest payments totaling \$149,231 also due. Details relating to the outstanding debt can be found in Note 3F. The District also has plans to issue new debt and refund the outstanding debt in the upcoming year, however no plans have been finalized.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District will continue to function under the current operations. Management will do everything possible to keep the customer costs as low as possible and continue to maintain the District's financial position. The District has no current plans to expand or increase costs to its customers.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the commissioners at the office located at 96 Carroll Road, Benton, Kentucky 42025, or by telephone at (270) 527-3208.

NORTH MARSHALL WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash on hand	\$ 1,000	\$ 1,000
Cash in bank - unrestricted	947,608	686,827
Accounts receivable - customer (less allowance of \$54,462)	222,104	195,598
Other receivable	-	185,024
Inventory	83,880	46,024
Prepaid expenses	19,707	19,326
Total current assets	1,274,299	1,133,799
Noncurrent assets:		
Cash in bank - restricted	53,417	48,563
Total restricted cash accounts	53,417	48,563
Capital assets:		
Land	143,164	143,164
Construction in progress	4,491,686	2,954,076
Utility plant in service	10,342,173	10,199,283
Less: Provision for depreciation	(6,443,719)	(6,111,127)
Total capital assets	8,533,304	7,185,396
Total noncurrent assets	8,586,721	7,233,959
Total assets	9,861,020	8,367,758
Deferred outflows of resources:		
Pension contributions subsequent to the measurement date	40,916	32,893
Pension changes in proportion of contributions	41,871	25,005
Pension - difference between projected and actual earnings	78,150	6,173
Pension changes of assumptions	44,037	69,439
Pension - difference between expected and actual experience	3,629	5,723
Total deferred outflows of resources	208,603	139,233

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

NORTH MARSHALL WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	15,812	192,043
Other accrued liabilities	<u>17,050</u>	<u>13,235</u>
Total Current liabilities (payable from current assets)	<u>32,862</u>	<u>205,278</u>
 Current liabilities (payable from restricted assets):		
Customer deposits	<u>53,591</u>	<u>48,819</u>
Total current liabilities	<u>86,453</u>	<u>254,097</u>
 Noncurrent liabilities:		
Accrued vacation	5,214	5,214
Bonds payable	3,850,000	3,316,234
Net pension liability	<u>831,288</u>	<u>688,613</u>
Total noncurrent liabilities	<u>4,686,502</u>	<u>4,010,061</u>
 Total liabilities	<u>4,772,955</u>	<u>4,264,158</u>
 NET POSITION		
Net investment in capital assets	4,683,304	3,869,162
Unrestricted	<u>613,364</u>	<u>373,671</u>
Total net position	<u>\$ 5,296,668</u>	<u>\$ 4,242,833</u>

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

NORTH MARSHALL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Charges for sales and services	1,552,455	1,496,275
Other operating revenue	<u>77,115</u>	<u>65,719</u>
Total operating revenues	<u>1,629,570</u>	<u>1,561,994</u>
Operating expenses:		
Costs of sales and service	186,007	177,720
Maintenance	325,135	316,869
Customer accounts	35,822	34,927
Administrative and general expenses	685,363	660,703
Provision for depreciation	<u>332,592</u>	<u>328,737</u>
Total operating expenses	<u>1,564,919</u>	<u>1,518,956</u>
Operating income (loss)	<u>64,651</u>	<u>43,038</u>
Nonoperating revenues (expenses):		
Interest income	1,241	642
Interest expense	<u>(15,901)</u>	<u>(18,240)</u>
Total nonoperating revenues (expenses)	<u>(14,660)</u>	<u>(17,598)</u>
Income (loss) before contributed capital	49,991	25,440
Capital contributions	<u>1,003,844</u>	<u>-</u>
Change in net position	<u>1,053,835</u>	<u>25,440</u>
Net position - beginning	4,242,833	4,705,672
Restatement - GASB Statement No. 68 implementation	<u>-</u>	<u>(488,279)</u>
Net position - beginning - restated	<u>4,242,833</u>	<u>4,217,393</u>
Net position - ending	<u>\$ 5,296,668</u>	<u>\$ 4,242,833</u>

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

NORTH MARSHALL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from consumers	\$ 1,788,088	\$ 1,338,361
Cash paid to suppliers of goods and services	(948,532)	(557,525)
Cash paid to employees for services	(421,143)	(419,400)
Change in customer deposits	4,772	(186)
Net cash provided by (used in) operating activities	<u>423,185</u>	<u>361,250</u>
Cash flows from investing activities:		
Interest received from investments	<u>1,241</u>	<u>642</u>
Net cash provided by (used in) investing activities	<u>1,241</u>	<u>642</u>
Cash flows from capital and related financing activities:		
Payment on long-term debt	-	(616,690)
Construction and acquisition of plant	(1,680,500)	(2,637,698)
Proceeds from issuance of bonds	533,766	3,316,234
Contributed capital from grants and consumers	1,003,844	-
Interest and other non-operating expenses	(15,901)	(18,240)
Net cash provided by (used in) financing activities:	<u>(158,791)</u>	<u>43,606</u>
 Increase (decrease) in cash and cash equivalents	 265,635	 405,498
Cash and cash equivalents - beginning	<u>736,390</u>	<u>330,892</u>
Cash and cash equivalents - ending	<u>\$ 1,002,025</u>	<u>\$ 736,390</u>
 Cash and cash equivalents:		
Restricted cash in bank	\$ 53,417	\$ 48,563
Unrestricted cash on hand	1,000	1,000
Unrestricted cash in bank	<u>947,608</u>	<u>686,827</u>
Net cash and cash equivalents	<u>\$ 1,002,025</u>	<u>\$ 736,390</u>

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

NORTH MARSHALL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of operating income (loss) to net cash provided (used)		
by operating activities:		
Net operating income (loss)	\$ 64,651	\$ 43,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	332,592	328,737
Pension expense - actuarially determined	114,221	87,436
(Increase) decrease in current assets:		
Accounts receivable	158,518	(223,633)
Inventory	(37,856)	6,096
Prepaid expenses	(381)	(474)
Pension contributions subsequent to measurement date	(40,916)	(26,335)
Increase (decrease) in current liabilities:		
Accounts payable	(176,231)	142,492
Other current liabilities	3,815	1,510
Accrued vacation	-	2,569
Customer deposits	4,772	(186)
Net cash provided by (used in) operating activities	<u>\$ 423,185</u>	<u>\$ 361,250</u>

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

**NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of the North Marshall Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to the governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

The North Marshall Water District's general purpose financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name),
- The District holds the corporate powers of the organization,
- The District appoints a voting majority of the organization's board,
- The District is able to impose its will on the organization,
- The organization has the potential to impose a financial benefit/burden on the District, and
- There is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the North Marshall Water District has no component units.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that generally result from providing services in connection with the Water District's principal ongoing operations.

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

C. Assets, Liabilities, and Net Position

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Accounts Receivable

Trade receivables result from unpaid billings for water service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on past history of uncollectible accounts and management's analysis of current accounts.

Inventories and Prepaid Items

All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method at year end. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements as of year end.

Restricted Assets

Certain cash accounts and investments are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The District elects to use restricted assets before unrestricted assets when the situation arises when either can be used.

Capital Assets

The property, plant, and equipment are stated at original cost including all direct cost of materials and labor during the construction period. All donated material is stated at the current fair market value.

The costs of replacements, normal maintenance, and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the District, with the exception of Land and Construction in Process, are depreciated, using the straight line method over the following useful lives:

Utility Plant	20 - 50 years
Office and other equipment	5 - 20 years
Vehicles	5 years

Accrued Vacation

It is the District's policy to permit employees to accumulate earned but unused vacation. All vacation pay has been accrued and the current year's is reflected as a current liability and the prior year's is reflected as a noncurrent liability on the financial statements.

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Long-term Obligations

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District has several items that qualify for this form of reporting - deferred outflows related to the pension plan as of December 31, 2016.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for this form of reporting - deferred inflows as of December 31, 2016.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Net Position

Equity is classified as net assets and displayed in the following two components:

- Net Investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Unrestricted - All other net positions that do not meet the description of the above categories.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The fiscal year 2017 budget was approved unanimously at the November 2016 Board meeting. The budget is not legally adopted but only used as a management tool.

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. For an investment, this is the risk that, in the event of a failure of the counterpart, the District will not be able to recover the value of its investments or the collateral securities that are in the possession of an outside party.

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute authorize the District to invest in obligations of the United States and its agencies and instrumentalities; bond or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to the District. As of December 31, 2016, all bank deposits were fully covered by federal depository insurance.

B. Receivables

Receivables as of the fiscal year ends were made up of the following:

Receivables		
	<u>2016</u>	<u>2015</u>
Billed service for utility customers	\$ 276,566	\$ 250,060
Other receivable	-	185,024
Less: allowance for doubtful	<u>(54,462)</u>	<u>(54,462)</u>
Total	<u>\$ 222,104</u>	<u>\$ 380,622</u>

C. Restricted Assets

Restricted assets as of the fiscal year ends were made up of the following:

Restricted Assets		
	<u>2016</u>	<u>2015</u>
Cash in bank - restricted	<u>\$ 53,417</u>	<u>\$ 48,563</u>

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

D. Net Position

Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The restricted net position amounts were as follows:

	Net Position	
	<u>2016</u>	<u>2015</u>
Net investment in capital assets		
Net property, plant and equipment	\$ 8,533,304	\$ 7,185,396
Less: Debt as disclosed in Note 3F	<u>3,850,000</u>	<u>3,316,234</u>
	<u>4,683,304</u>	<u>3,869,162</u>
Unrestricted	613,364	373,671
Total net position	<u>\$ 5,296,668</u>	<u>\$ 4,242,833</u>

E. Capital Assets

Capital asset activity during the year was as follows:

<u>Description</u>	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2016</u>
Capital assets, not being depreciated				
Land	\$ 143,164	\$ -	\$ -	\$ 143,164
Construction in progress	<u>2,954,076</u>	<u>1,537,610</u>	<u>-</u>	<u>4,491,686</u>
Total capital assets not being depreciated	<u>3,097,240</u>	<u>1,537,610</u>	<u>-</u>	<u>4,634,850</u>
Capital assets, being depreciated				
Utility plant in service	<u>10,199,283</u>	<u>142,890</u>	<u>-</u>	<u>10,342,173</u>
Less accumulated depreciation for:				
Utility plant in service	<u>6,111,127</u>	<u>332,592</u>	<u>-</u>	<u>6,443,719</u>
Total capital assets, being depreciated, net	<u>4,088,156</u>	<u>(189,702)</u>	<u>-</u>	<u>3,898,454</u>
Total capital assets, net	<u>\$ 7,185,396</u>	<u>\$ 1,347,908</u>	<u>\$ -</u>	<u>\$ 8,533,304</u>

<u>Description</u>	<u>Balance at December 31, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2015</u>
Capital assets, not being depreciated				
Land	\$ 143,164	\$ -	\$ -	\$ 143,164
Construction in progress	<u>455,936</u>	<u>2,954,076</u>	<u>455,936</u>	<u>2,954,076</u>
Total capital assets not being depreciated	<u>599,100</u>	<u>2,954,076</u>	<u>455,936</u>	<u>3,097,240</u>
Capital assets, being depreciated				
Utility plant in service	<u>10,059,725</u>	<u>139,558</u>	<u>-</u>	<u>10,199,283</u>
Less accumulated depreciation for:				
Utility plant in service	<u>5,782,390</u>	<u>328,737</u>	<u>-</u>	<u>6,111,127</u>
Total capital assets, being depreciated, net	<u>4,277,335</u>	<u>(189,179)</u>	<u>-</u>	<u>4,088,156</u>
Total capital assets, net	<u>\$ 4,876,435</u>	<u>\$ 2,764,897</u>	<u>\$ 455,936</u>	<u>\$ 7,185,396</u>

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Depreciation expense amounted to \$332,592 and \$328,737 for the fiscal years ended December 31, 2016 and 2015, respectively.

F. Long-term Debt

At year end, the District's long-term liabilities consisted of the following loan:

- (1) First Kentucky Bank, the balance of the loan was fully paid off as of December 31, 2015.
- (2) The District issued a new 2014 USDA Series Bond in the amount of \$3.85 million during the current year. For 2017, \$149 thousand in interest and \$0 in principal will be paid.

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

	Balance 12/31/15	Issued	Retired	Balance 12/31/16	Due Within One Year
2014 USDA Series Bond	3,316,234	533,766	-	3,850,000	-
Total long-term debt	3,316,234	533,766	-	3,850,000	-
Accrued vacation	5,214	-	-	5,214	-
Total Long-Term Liabilities	<u>\$ 3,321,448</u>	<u>\$ 533,766</u>	<u>\$ -</u>	<u>\$ 3,855,214</u>	<u>\$ -</u>

	Balance 12/31/14	Issued	Retired	Balance 12/31/15	Due Within One Year
KIA Loan	-	-	-	-	-
First KY Bank	403,667	-	403,667	-	-
2014 USDA Series Bond	-	3,316,234	-	3,316,234	-
Total long-term debt	403,667	3,316,234	403,667	3,316,234	-
Accrued vacation	2,645	2,569	-	5,214	-
Total Long-Term Liabilities	<u>\$ 406,312</u>	<u>\$ 3,318,803</u>	<u>\$ 403,667</u>	<u>\$ 3,321,448</u>	<u>\$ -</u>

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

The scheduled annual requirements for long-term debt at December 31, 2016, including interest of \$4.50 million is as follows:

Year ended 12/31/2016	USDA Series 2014 Bond		
	Total Principal	Total Interest	Total
2017	\$ -	\$ 149,231	\$ 149,231
2018	37,500	172,832	210,332
2019	39,206	171,126	210,332
2020	40,990	169,342	210,332
2021	42,855	167,477	210,332
2022-2026	245,367	806,293	1,051,660
2027-2031	306,511	745,149	1,051,660
2032-2036	382,897	668,763	1,051,660
2037-2041	478,317	573,343	1,051,660
2042-2046	597,514	454,146	1,051,660
2047-2051	746,416	305,244	1,051,660
2052-2056	932,427	119,233	1,051,660
	<u>\$ 3,850,000</u>	<u>\$ 4,502,179</u>	<u>\$ 8,352,179</u>

G. Short-term Debt

At year end, the District's short-term debt had been fully paid off and carried a \$0 balance.

NOTE 4 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year ended December 31, 2015, the District purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

B. Retirement Plan

For the years ended December 31, 2016 and 2015, the District's total covered payroll for all employees were \$458,633 and \$405,480. Covered payroll refers to all compensation paid by the District to active employees covered by the Plan.

County Employees Retirement System Non-Hazardous (CERS)

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit plan. CERS is administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Employee membership data related to the Plan as of June 30, 2016 was as follows:

Active members	14
Inactive members	<u>22</u>
Total members	<u>36</u>

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' 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.

Net Pension Liability - The District's net pension liability (asset) was measured as of June 30, 2016, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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

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

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommended rates. The District's contributions to CERS for the year ended December 31, 2016 and 2015 were \$76,143 and \$65,048.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2016, the District reported a liability \$831,288 for its proportionate share of the net pension liability. The net pension liability for the plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 0.016880%.

For the years ended December 31, 2016 and 2015, the District recognized pension expenses of \$133,140 and \$87,436. At December 31, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 3,629	\$ -
Changes of assumptions	44,037	-
Net difference between projected and actual earnings on plan investments	78,150	-
Employer contributions subsequent to the measurement date	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	41,871	-
District contributions subsequent to the measurement date	40,916	-
Total	<u>\$ 208,603</u>	<u>\$ -</u>

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ 5,723	\$ -
Changes of assumptions	69,439	-
Net difference between projected and actual earnings on plan investments	6,173	-
Employer contributions subsequent to the measurement date	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	25,005	-
District contributions subsequent to the measurement date	32,893	-
Total	<u>\$ 139,233</u>	<u>\$ -</u>

Deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year 1	\$ 57,199
Year 2	41,735
Year 3	40,921
Year 4	27,832
Year 5	-
Thereafter	-

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

Inflation	3.25 percent
Projected salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash equivalent	<u>2%</u>	-0.25%
Total	100%	

Discount rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate – The following table presents the net pension liability of the District, calculated using the discount rate selected, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rates.

<u>2016</u>			
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's net pension liability	1,035,694	831,288	655,735
<u>2015</u>			
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's net pension liability	878,221	688,613	524,952

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

REQUIRED SUPPLEMENTARY INFORMATION SECTION

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employee's Retirement System
Fiscal Years Ending December 31,

	<u>2014</u>	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability (asset)	0.015%	0.016%	0.017%
District's proportionate share of the net pension liability (asset)	<u>\$ 488,279</u>	<u>\$ 688,613</u>	<u>\$ 831,288</u>
District's covered-employee payroll	\$ 387,798	\$ 405,480	\$ 458,633
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	125.91%	169.83%	181.25%
Plan fiduciary net position as a percentage of the total pension liability	64.33%	66.74%	80.19%

The amounts presented were determined as of June 30 of the prior fiscal year.

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

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS
County Employee's Retirement System
Fiscal Years Ending December 31,

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 65,626	\$ 65,048	\$ 76,143
Contributions in relation to the contractually required contribution	<u>65,206</u>	<u>65,048</u>	<u>76,143</u>
Contribution deficiency (excess)	<u>\$ 420</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 387,798	\$ 405,480	\$ 458,633
Contributions as a percentage of covered-employee payroll	16.81%	16.04%	16.60%

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

NORTH MARSHALL WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2016

County Employees Retirement System

Changes of benefit terms - None.

Changes of assumptions - The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2016.

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For health retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 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.

Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF OPERATING INCOME AND EXPENSES
For the Year Ended December 31, 2016 and 2015

	2016	2015
Operating revenues:		
Gross water sales	\$ 1,559,541	\$ 1,523,219
Less: Bad debt expense	-	(12,915)
Less: leak adjustments	(7,086)	(14,029)
Net water sales	<u>1,552,455</u>	<u>1,496,275</u>
 Fees:		
Connect and reconnect fees	26,046	26,978
Other water revenues	<u>51,069</u>	<u>38,741</u>
	<u>77,115</u>	<u>65,719</u>
 Total operating revenues	<u>\$ 1,629,570</u>	<u>\$ 1,561,994</u>
Operating expenses:		
Cost of sales and services		
Purchased power	\$ 145,572	\$ 135,284
Salaries and wages	4,852	5,609
Treatment chemicals	26,590	23,293
Contractual services	<u>8,993</u>	<u>13,534</u>
	<u>186,007</u>	<u>177,720</u>
 Maintenance:		
Salaries and wages	204,096	195,354
Materials and supplies	57,121	87,649
Contractual services	<u>63,918</u>	<u>33,866</u>
	<u>325,135</u>	<u>316,869</u>
 Customer accounts expense:		
Meter reading	14,790	14,388
Accounting and collection	<u>21,032</u>	<u>20,539</u>
	<u>35,822</u>	<u>34,927</u>

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF OPERATING INCOME AND EXPENSES
For the Year Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Administrative and general expenses		
Salaries and wages	238,373	256,519
Employee benefits and payroll taxes	106,627	100,283
Employee pensions	149,448	126,268
Office supplies	35,725	40,543
Office and shop utilities	3,114	2,918
Insurance	39,800	38,894
Advertising	61	994
Professional fees	44,969	31,052
Educational and training	15,424	11,052
Transportation	23,321	24,180
Uniforms	3,623	3,024
Office phones	16,747	15,995
Rental	2,845	1,200
Miscellaneous	5,286	7,781
	<u>685,363</u>	<u>660,703</u>
Provision for depreciation	<u>332,592</u>	<u>328,737</u>
Total operating expense	<u>\$ 1,564,919</u>	<u>\$ 1,518,956</u>

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF LONG-TERM DEBT
December 31, 2016

Year Ended	USDA Series 2014		Total
	Principal	Interest	
2017	\$ -	\$ 149,231	\$ 149,231
2018	37,500	172,832	210,332
2019	39,206	171,126	210,332
2020	40,990	169,342	210,332
2021	42,855	167,477	210,332
2022	44,806	165,526	210,332
2023	46,845	163,487	210,332
2024	48,976	161,356	210,332
2025	51,205	159,127	210,332
2026	53,535	156,797	210,332
2027	55,971	154,361	210,332
2028	58,518	151,814	210,332
2029	61,181	149,151	210,332
2030	63,965	146,367	210,332
2031	66,876	143,456	210,332
2032	69,920	140,412	210,332
2033	73,101	137,231	210,332
2034	76,428	133,904	210,332
2035	79,906	130,426	210,332
2036	83,542	126,790	210,332
2037	87,344	122,988	210,332
2038	91,319	119,013	210,332
2039	95,474	114,858	210,332
2040	99,819	110,513	210,332
2041	104,361	105,971	210,332
2042	109,110	101,222	210,332
2043	114,075	96,257	210,332
2044	119,267	91,065	210,332
2045	124,694	85,638	210,332
2046	130,368	79,964	210,332
2047	136,301	74,031	210,332
2048	142,503	67,829	210,332
2049	148,988	61,344	210,332
2050	155,768	54,564	210,332
2051	162,856	47,476	210,332
2052	170,267	40,065	210,332
2053	178,016	32,316	210,332
2054	186,117	24,215	210,332
2055	194,586	15,746	210,332
2056	203,441	6,891	210,332
	<u>\$ 3,850,000</u>	<u>\$ 4,502,179</u>	<u>\$ 8,352,179</u>

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
WATER RATES IN FORCE
December 31, 2016

Water

\$2.64 per every 1,000 gallons of water plus a base charge

Residential Rate Schedule	Base	
Residential 5/8"		\$18.94
Residential 1"		\$26.44
Residential 1 1/2"		\$38.95
Residential 2"		\$53.99
Residential 3"		\$89.03
Commercial Rate Schedule		
Commerical 5/8"		\$18.94
Commercial 1"		\$26.44
Commercial 1 1/2"		\$38.95
Commercial 2"		\$53.99
Commercial 3"		\$89.03
Commercial 4"		\$139.12
Commercial 6"		\$264.30
4" Two-Meters		\$272.24
Reidland 4"		\$139.12

Sewer

\$60.00 minimum bi-monthly charge up to 12,000 gallons of water usage

\$5.00 for every 1,000 gallons over the 12,000 gallon limit

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Project or Grant Number</u>	<u>Expenditures</u>
U.S. Department of Agricultural Rural Passed through State of Tennessee Department Utilities Service Waste and Waste Disposal Systems for Rural Communities	10.760*	N/A	\$ 1,537,610
Total Federal Awards			<u><u>\$ 1,537,610</u></u>

* - denotes a major program.

NOTE: The accompanying schedule was prepared on the modified accrual basis.

INTERNAL CONTROL AND COMPLIANCE SECTION



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Commissioners
North Marshall Water District
Benton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Marshall Water District (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
April 14, 2017



**Independent Auditor's Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the *Uniform Guidance***

Board of Commissioners
North Marshall Water District
Benton, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the North Marshall Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of North Marshall Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost and Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of North Marshall Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Board of Commissioners
North Marshall Water District

Report on Internal Control Over Compliance

Management of the North Marshall Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
April 14, 2017

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weaknesses identified?	_____ yes	<u> X </u> no	
Significant deficiencies identified?	_____ yes	<u> X </u> none reported	
Noncompliance material to financial statements noted?	_____ yes	<u> X </u> no	

Federal Awards

Internal Control over major programs:			
Material weaknesses identified?	_____ yes	<u> X </u> no	
Significant deficiencies identified?	_____ yes	<u> X </u> none reported	

Type of auditor's report issued on compliance for major programs:	Unmodified	
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Any audit findings disclosed that are required to be reported in accordance with 2 CRF 200.516(a)?	_____ yes	<u> X </u> no
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Waste and Waste Disposal Systems for Rural Communication

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
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Auditee qualified as low-risk auditee?	_____ yes	<u> X </u> no
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NORTH MARSHALL WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

Section II – Financial Statement Findings:

No current year findings reported.

Section III – Federal Award Findings and Questioned Costs:

There were no findings required to be reported by Uniform Guidance.

NORTH MARSHALL WATER DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended December 31, 2016

Financial Statement Findings:

No prior year findings reported.

Federal award Programs and Questioned Costs:

There were no prior year findings required to be reported by Uniform Guidance.