

**CARROLL COUNTY WATER DISTRICT NO. 1**

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

**At December 31, 2017 and 2016**

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

**Years Ended December 31, 2017 and 2016**

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# RAISOR, ZAPP & WOODS, PSC

## Certified Public Accountants

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### 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, 2017 and 2016, 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, 2017 and 2016, 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 30, and the Schedule of the District's Contributions – County Employees Retirement System on page 31 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 6, 2018, 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 solely 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 the effectiveness of the Carroll County Water District No. 1's 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 6, 2018

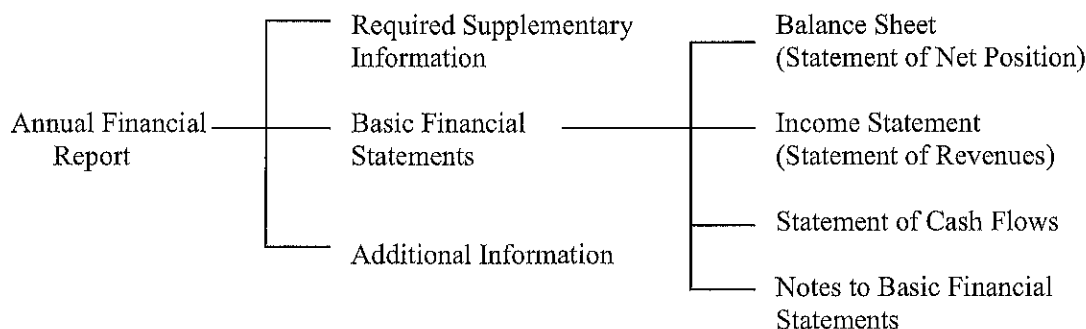


## MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2017. 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 \$90,769 to \$13,027,855 in 2017. This decrease is explained by the cost of depreciation being higher than the net capital additions during 2017. The residential sales were similar to last year as most of the decline was in commercials and industrials.
- Operating Revenues decreased by \$105,117 or 5.5% to \$1,812,909 in 2017 due to lower water sales in 2017. The reduction in labor cost was attributable to capitalization of in-house improvement projects.
- Operating Expenses were up \$128,721 in 2017 when compared to 2016. This increase is due to higher cost associated with electrical power cost and retirement plan expense. Maintenance costs were \$80,371 higher in 2017 but was offset some by \$38,501 lower labor costs.
- Net Income before Capital Contributions for 2017 as compared to the previous year was down \$225,972. This is primarily due to lower water sales when compared to previous year, and higher costs associated with maintenance and retirement plan expense.

**Statement of Net Position**

During 2017, additions to the asset base were \$225,483 lower than the additions in 2016. Primarily due to a lower level of capital improvement projects and less equipment purchases during the year. The depreciation for the year being basically the same as the prior year. Overall there was a \$90,769 decrease in total assets when compared to the prior year.

	2017	2016	2015	Difference 17-16	%
Utility Plant	\$9,693,684	\$9,898,723	\$10,001,649	(205,039)	(2.1)
Current Assets	\$1,976,157	\$1,892,512	\$1,862,213	83,645	4.4
Other Non-Current Assets	\$1,358,014	\$1,327,389	\$1,308,484	30,625	2.3
Total Assets	\$13,027,855	\$13,118,624	\$13,172,346	(90,769)	(0.7)

**Deferred Outflows/Inflows of Resources**

- This MDA is the third to deal specifically with CERS retirement Liability. The District 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 may impact future pension expense. Increases in Deferred Outflows and Inflows of Resources are attributable to the revised actuarial assumptions used by KRS in estimating it's outstanding pension liability.

Carroll County Water District #1  
December 31, 2017

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

	2017	2016	2015	**Difference 17-16	%
Deferred Outflow	\$234,089	\$165,354	\$118,265	\$68,735	42
Deferred Inflow	\$25,278	\$1,450	\$2,410	\$23,828	1643

In addition to the deferred inflows related to the net pension liability, the District had deferred inflows of \$2,133 and \$2,235 in unamortized bond premiums for the years ended December 31, 2017 and 2016.

**Liabilities**

The reduction in total liabilities in 2017 vs. 2016 is accounted for primarily by lower payables due to debt reduction. An offset to this reduction in total liabilities is a \$164,862 increase in net pension liability. Long term liabilities decreased due to normal principal retirements offset by the increase in net pension liability. Current liabilities increased due to transactions related to DOT line relocation projects.

	2017	2016	2015	Difference 17-16	%
Long Term Liabilities	\$6,916,134	\$7,011,247	\$7,201,014	(\$95,113)	(1.4)
Current & Accrued Liabilities	\$503,435	\$433,127	\$462,155	\$70,308	16.2
Total Liabilities	\$7,419,569	\$7,444,374	\$7,663,169	(24,805)	(0.3)

**Total Net Position**

Total Net Position decreased by \$20,955 reflecting the net loss the District incurred in its operations.

	2017	2016	2015	Difference 17-16	%
Total Net Position	\$5,814,964	\$5,835,919	\$5,622,695	(\$20,955)	(0.36)

Carroll County Water District #1  
December 31, 2017

**Income Statement**

Operating Revenues for 2017 were down when compared to 2016 due to lower water sales. Operating expenses for 2017 were up by \$128,721 when compared to 2016 due to higher costs associated with power and retirement plan expense. Non-operating expenses for 2017 were virtually unchanged compared to 2016. The net income for the year was down by \$234,179 due to lower water sales in 2017 compared to 2016.

	2017	2016	2015	Difference (17-16)	%
Operating Revenue	\$1,812,909	\$1,918,026	\$1,852,663	(\$105,117)	(5.5)
Operating Expense	\$1,676,312	\$1,547,591	\$1,510,949	\$128,721	8.3
Net Operating Revenue	\$136,597	\$370,435	\$341,714	(\$233,838)	(63.1)
Non-Operating Expenses	\$203,022	\$210,888	\$229,524	(\$7,866)	(3.7)
Capital Contributions	\$45,470	\$53,677	\$160,664	(\$8,207)	(15.3)
Special Item		-			
Net Income	(\$20,955)	\$213,224	\$272,854	(\$234,179)	(109.8)

**Statement of Cash Flows**

Cash from Operating Activities was down by 19.1% when compared to 2016. This was offset by a 30.7% decrease in capital purchases of assets in 2017 resulting in a 4.5% increase in cash at years end.

	2017	2016	2015	Difference (17-16)	%
Cash from Operating Activities (Net)	\$690,680	\$853,911	\$838,477	(163,231)	(19.1)
Cash from Non-Capital Financing Activities Net	\$0	\$0	\$0	-	-
Cash from Capital & Related Net Financing Activities	(\$608,751)	\$(878,064)	\$(512,996)	\$269,313	30.7
Cash from Investing Activities	\$1,894	\$1,345	\$1,275	\$549	40.8
Change in Cash	\$83,823	\$(22,808)	\$326,756	\$106,631	467
Cash Balance, Beginning of Year	\$1,853,075	\$1,875,883	\$1,549,127	\$22,808	1.2
Cash Balance, End of Year	\$1,936,898	\$1,853,075	\$1,875,883	\$83,823	4.5



**Debt Administration**

As of 2017 year's end, the District had outstanding Bond debt of \$5,161,000 and Notes Payable of \$1,013,016 for a total of \$6,174,016 in Long Term Debt. The funds available for Debt Service in 2017 were more than sufficient to cover debt payments without pulling down cash. The Debt Coverage Ratio for 2017 was 1.49, a level that is sufficient not only to pay debt but also allow sufficient allocation to Depreciation and other capital improvement projects.

	2017	2016	2015	Difference (17-16)	%
Total Bonds Payable	\$5,161,000	\$5,305,500	\$5,447,500	\$144,500	(2.7)
Note Payable	\$1,013,016	\$1,121,127	\$1,275,079	\$108,111	(9.6)
Income Available for Debt Service	\$704,875	\$880,826	\$817,215	(175,951)	(20.0)
Total Debt Service	\$472,526	\$535,562	\$481,803	(63,036)	(11.8)
Debt Coverage	1.49	1.53	1.64	(0.2)	(13.1)

**Economic Outlook**

No major significant growth or decline in water sales is projected in 2018, but with the addition of Cabot Corporation going into operation in the middle of the year that should increase industrial sales. 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 2017 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. You will note that this ratio was higher for the 2017 year but still in the comfortable range.

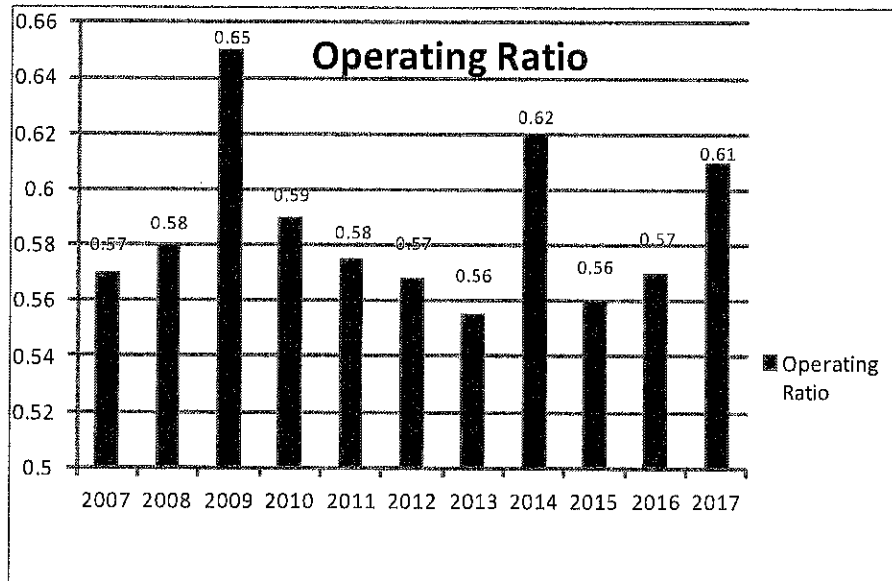
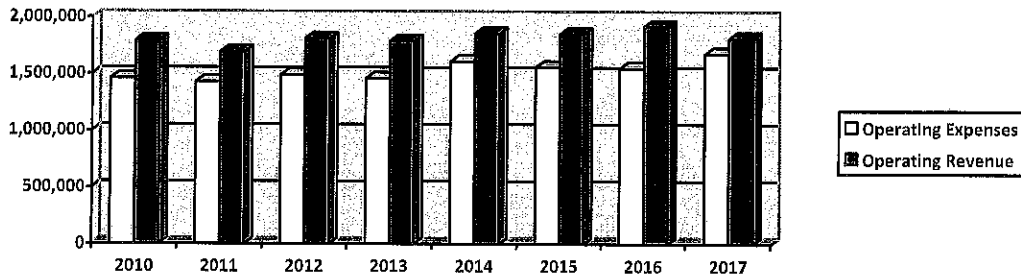
In 2018, within the state legislation session, they created a cap on the CERS employer's contribution maximum rate increase up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028. This year it will cost the district about \$10,000 in increased employer contributions. The District was able to restructure their liquid investment to cover this first large impact of the additional 10% increase on employer's contribution rate. If this trend continues a rate increase will become necessary in order to maintain the required debt coverage especially if the retirement pension liability is to be included.

Approximately 8,000 feet of 6" asbestos cement pipe was relocated and upgraded to 8" PVC water main at the end of the FY 2017 year. This project was incorporated within the Kentucky Department of Transportation. Since the existing line was inside the disturbance area, Carroll County Water was only responsible for the cost of the betterment portion (10.6% of construction cost only). Final payments will be disbursed in 2018 to close project. In result, this project was a high cost savings for the District.

**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, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash, Including Time Deposits	\$ 1,568,943	\$ 1,503,467
Accounts Receivable (Net)	166,898	176,002
Other Receivables	21,662	11,711
Inventory	178,523	161,430
Prepaid Expense	40,131	39,902
<b>Total Current Assets</b>	<b>\$ 1,976,157</b>	<b>\$ 1,892,512</b>
<b>Noncurrent Assets:</b>		
<b>Restricted Assets:</b>		
Cash, Including Time Deposits	\$ 1,357,817	\$ 1,327,193
Interest Receivable	97	96
Capital Assets (Net)	9,693,684	9,898,723
Deposits	100	100
<b>Total Noncurrent Assets</b>	<b>\$ 11,051,698</b>	<b>\$ 11,226,112</b>
<b>Total Assets</b>	<b>\$ 13,027,855</b>	<b>\$ 13,118,624</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Attributable to Employee Pension Plan	\$ 234,089	\$ 165,354
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 34,820	\$ 42,088
Accounts Payable - Capital Assets	45,455	-
Accrued Compensated Absences	38,024	40,836
Accrued Wages	2,396	2,042
Accrued Payroll Taxes/Employee Withholding	16,672	16,241
Utility Tax Payable	3,865	4,092
Sales Tax Payable	2,637	3,217
Deferred Revenues	25,092	-
<b>Current Liabilities Payable from Restricted Assets:</b>		
Accrued Interest Payable	70,373	71,999
Revenue Bonds Payable	150,500	144,500
Note Payable	113,601	108,112
<b>Total Current Liabilities</b>	<b>\$ 503,435</b>	<b>\$ 433,127</b>
<b>Noncurrent Liabilities:</b>		
Revenue Bonds Payable	\$ 5,010,500	\$ 5,161,000
Note Payable	899,415	1,013,015
Net Pension Liability	976,507	811,645
<b>Noncurrent Liabilities Payable from Restricted Assets:</b>		
Customer Deposits Payable	29,712	25,587
<b>Total Noncurrent Liabilities</b>	<b>\$ 6,916,134</b>	<b>\$ 7,011,247</b>
<b>Total Liabilities</b>	<b>\$ 7,419,569</b>	<b>\$ 7,444,374</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Attributable to Employee Pension Plan	\$ 25,278	\$ 1,450
Unamortized Bond Premiums	2,133	2,235
<b>Total Deferred Inflows of Resources</b>	<b>\$ 27,411</b>	<b>\$ 3,685</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 3,519,668	\$ 3,469,861
Restricted for Debt Service	1,257,829	1,229,703
Unrestricted	1,037,467	1,136,355
<b>Total Net Position</b>	<b>\$ 5,814,964</b>	<b>\$ 5,835,919</b>

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
For the Years Ended December 31, 2017 and 2016

	2017	2016
<b>Operating Revenues:</b>		
Charges for Services:		
Water Charges (Net)	\$ 1,712,937	\$ 1,829,992
Bulk Water Charges	60	82
Total Charges for Services	\$ 1,712,997	\$ 1,830,074
Other Charges and Miscellaneous:		
Billing Service Charges	\$ 39,725	\$ 43,390
Reconnect and Disconnect Charges	41,321	39,020
Miscellaneous	18,866	5,542
Total Other Charges and Miscellaneous	\$ 99,912	\$ 87,952
Total Operating Revenues	\$ 1,812,909	\$ 1,918,026
<b>Operating Expenses:</b>		
Accounting and Collecting Labor	\$ 102,014	\$ 103,633
Administrative Per Diem	16,200	16,200
Administrative Salaries	116,158	121,667
Depreciation Expense	448,323	451,230
Employee Benefits	53,541	53,643
Employee Licenses	206	236
Insurance	36,035	34,900
Maintenance of Mains/Distribution System	194,859	114,488
Office Supplies and Expense	55,631	40,776
Operating Labor	163,156	201,657
Other Interest Expense	122	118
Payroll Taxes	34,658	31,875
Professional Services	13,990	19,478
Purchased Power	157,157	147,636
Purchased Water	12,471	9,842
Regulatory Fees	4,348	4,141
Repairs & Maintenance	6,278	9,539
Retirement Plan Expense	199,385	130,999
Transportation Expense	23,213	25,587
Uniforms	8,908	6,475
Utilities & Telephone	16,832	16,706
Water Treatment Expense	12,827	6,765
Total Operating Expenses	\$ 1,676,312	\$ 1,547,591
Operating Income	\$ 136,597	\$ 370,435
<b>Nonoperating Revenue (Expense):</b>		
Investment Income	\$ 14,173	\$ 13,473
Interest Expense	(218,187)	(225,238)
Gain (Loss) on Sale/Abandonment of Fixed Assets	992	877
Total Nonoperating Revenue (Expense)	\$ (203,022)	\$ (210,888)
Net Income (Loss) Before Contributions	\$ (66,425)	\$ 159,547
Capital Contributions	45,470	53,677
<b>Special Item</b>		
Department of Transportation Line Relocation Project		
Income	\$ 524,411	\$ -
Expense	(524,411)	-
Total Special Item	\$ -	\$ -
Change in Net Position	\$ (20,955)	\$ 213,224
Net Position--Beginning of Year	5,835,919	5,622,695
Net Position--End of Year	\$ 5,814,964	\$ 5,835,919

CARROLL COUNTY WATER DISTRICT NO. 1  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 1,825,331	\$ 1,900,844
Payments to Suppliers	(231,920)	(148,193)
Payments to Employees	(399,986)	(432,887)
Other Receipts (Payments)	(502,745)	(465,853)
Net Cash Provided (Used) by Operating Activities	\$ 690,680	\$ 853,911
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Proceeds Industrial Line Relocation	\$ 524,411	\$ -
Costs Associated with Line Relocation	(524,411)	-
	\$ -	\$ -
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	\$ 34,120	\$ 17,680
Purchase of Capital Assets (including Work in Process)	(182,687)	(374,131)
Principal Paid on Capital Debt	(252,611)	(308,806)
Interest Paid on Capital Debt	(219,915)	(226,756)
Proceeds Build America Bonds Interest Reimbursement	11,350	11,537
Proceeds Sale of Capital Assets	992	2,412
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (608,751)	\$ (878,064)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	\$ (12,277)	\$ (12,158)
Interest Received	14,171	13,503
Net Cash Provided (Used) by Investing Activities	\$ 1,894	\$ 1,345
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 83,823	\$ (22,808)
Balances-Beginning of the Year	1,853,075	1,875,883
Balances-End of the Year	\$ 1,936,898	\$ 1,853,075

	Balances Per December 31, 2017 Statement of Net Position	Balances Per December 31, 2017 Statement of Cash Flows
Cash	\$ 1,050,976	\$ 1,050,976
Time Deposits	517,967	-
Restricted Cash	885,922	885,922
Restricted Time Deposits	471,895	-
Total Cash and Cash Equivalents, End of Year	\$ 2,926,760	\$ 1,936,898
	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

**CARROLL COUNTY WATER DISTRICT NO. 1  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 136,597	\$ 370,435
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	448,323	451,230
Pension Expense	119,955	59,161
Change in Assets and Liabilities:		
Receivables, Net	9,104	(19,948)
Inventories	(17,093)	(26,419)
Prepaid Expenses	(229)	(1,911)
Accounts Payable	(7,268)	4,467
Accrued Wages	354	2,042
Utility Tax Payable	(227)	(397)
Sales Tax Payable	(580)	123
Accrued Payroll Taxes & Employee Benefits	431	3,860
Customer Meter Deposits Payable	4,125	3,040
Accrued Compensated Absences	(2,812)	8,228
Net Cash Provided by Operating Activities	<b>\$ 690,680</b>	<b>\$ 853,911</b>

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

At December 31, 2017, Carroll County Water District No. 1 had receivables of \$21,556, contract payables of \$45,455 and unearned revenues of \$25,092 associated with the U.S. 42 line relocation and upgrade project.

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 included the debt reduction in capital contributions in its statement of revenues, expenses and changes in fund net position.

CARROLL COUNTY WATER DISTRICT NO. 1  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2017 and 2016

**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, 2017 and 2016

**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 \$34,120 and \$29,286 were received by the District for the years ended December 31, 2017, and 2016, respectively. Capital contributions of \$11,350 and \$11,537 Build America Bonds interest reimbursements were received by the District during the years ended December 31, 2017, and 2016. Additionally, capital contributions arising from debt forgiveness of \$12,854 were received in the year ended December 31, 2016.

**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, 2017 and 2016**

**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, 2017 and 2016.

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, 2017 and 2016. 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 2017 and 2016.

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, 2017 and 2016 additional transfers were 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, 2017 and 2016**

**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, 2017 and 2016, in accordance with the District's policy, \$610,818 and \$604,291 respectively, of the District's deposits were covered by federal depository insurance and \$2,334,638 and \$2,240,329 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, 2017 and 2016, the District's deposits were as follows:

**December 31, 2017**

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,955,594	\$ 1,936,798
Time/Savings Deposits	989,862	989,862
<b>Total Deposits</b>	<b>\$ 2,945,456</b>	<b>\$ 2,926,660</b>

**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>

**Reconciliation to Statement of Net Position:**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unrestricted Cash	\$ 1,568,943	\$ 1,503,467
Restricted Cash, Including Time Deposits	1,357,817	1,327,193
Less: Cash on Hand	(100)	(100)
	<b>\$ 2,926,660</b>	<b>\$ 2,830,560</b>

**NOTE 4 – RESTRICTED ASSETS**

Restricted assets consists of the following:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Restricted Cash and Time Deposits		
Bond and Interest Sinking Account	\$ 353,320	\$ 345,838
Depreciation Reserve Account	974,785	955,768
Customer Deposits	29,712	25,587
<b>Total</b>	<b>\$ 1,357,817</b>	<b>\$ 1,327,193</b>
Interest Receivable - Depreciation Reserve Accounts	\$ 97	\$ 96

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
December 31, 2017 and 2016

**NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE**

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$2,522 and \$2,314 at December 31, 2017 and 2016, 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, 2017 and 2016, was as follows:

	Balance at January 1, 2017	Additions	Disposals	Balance at December 31, 2017
Land & Land Rights	\$ 311,460	\$ -	\$ -	\$ 311,460
Structures & Improvements	325,927	-	-	325,927
Distribution System	14,834,429	200,769	-	15,035,198
Wells	525,978	-	-	525,978
Machinery & Equipment	778,883	47,020	(23,092)	802,811
Construction in Process	-	-	-	-
<b>Totals at Historical Cost</b>	<b>\$ 16,776,677</b>	<b>\$ 247,789</b>	<b>\$ (23,092)</b>	<b>\$ 17,001,374</b>
Less: Accumulated Depreciation				
Structures & Improvements	\$ 148,563	\$ 7,972	\$ -	\$ 156,535
Distribution System	5,945,852	382,759	-	6,328,611
Wells	289,816	15,028	-	304,844
Machinery & Equipment	493,723	42,564	(18,587)	517,700
<b>Total Accumulated Depreciation</b>	<b>\$ 6,877,954</b>	<b>\$ 448,323</b>	<b>\$ (18,587)</b>	<b>\$ 7,307,690</b>
<b>Capital Assets, Net</b>	<b>\$ 9,898,723</b>	<b>\$ (200,534)</b>	<b>\$ (4,505)</b>	<b>\$ 9,693,684</b>
	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)	-
<b>Totals at Historical Cost</b>	<b>\$ 16,471,607</b>	<b>\$ 473,272</b>	<b>\$ (168,202)</b>	<b>\$ 16,776,677</b>
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
<b>Total Accumulated Depreciation</b>	<b>\$ 6,469,958</b>	<b>\$ 451,230</b>	<b>\$ (43,234)</b>	<b>\$ 6,877,954</b>
<b>Capital Assets, Net</b>	<b>\$ 10,001,649</b>	<b>\$ 22,042</b>	<b>\$ (124,968)</b>	<b>\$ 9,898,723</b>

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2017 and 2016**

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

Included under the District's Plant Assets at December 31, 2017 and 2016, respectively, were \$1,335,577 and \$946,932 of fully depreciated assets. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$448,323 and \$451,230 in 2017 and 2016, respectively.

**NOTE 8 – LONG-TERM DEBT**

**Notes Payable:**

The Carroll County Water District No. 1 entered into interlocal agreements under which it was 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 was the recipient of the loan proceeds. It was 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, agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. The District chose to repay the total debt associated with the Focus on Core Mission and Infrastructure Project in December, 2016.

On November 30, 2017, the Public Service Commission approved the refinancing of the Kentucky Infrastructure Authority Loan to lower the interest rate charged from 3% to 2.25%. The principal balance and payment schedule remained unchanged. The refinancing will save the District \$25,371 over the life of the loan. The net present value of the interest savings is \$23,396.

As of December 31, 2017 and 2016, the long-term debt payable consisted of the following:

**Notes Payable:**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Kentucky Infrastructure Authority represents a 20 year loan, original principal of \$1,908,662, secured by water revenues. Interest was charged at 3% per annum until November 30, 2017 when the interest rate was reduced to 2.25%. Payments are made semi-annually. Final maturity is December 1, 2024.	\$ 800,281	\$ 901,589
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.	<u>212,735</u>	<u>219,538</u>
<b>Total Notes Payable</b>	<u>\$ 1,013,016</u>	<u>\$ 1,121,127</u>
Current Portion	\$ 113,601	\$ 108,112
Noncurrent Portion	899,415	1,013,015
<b>Total Notes Payable</b>	<u>\$ 1,013,016</u>	<u>\$ 1,121,127</u>

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2017 and 2016**

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

**Bonds Payable:**

	<u>December 31, 2017</u>	<u>December 31, 2016</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.	\$ 504,000	\$ 514,000
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.	270,000	275,500
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.	1,142,000	1,161,000
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.	<u>3,245,000</u>	<u>3,355,000</u>
<b>Total Bonds Payable</b>	<b><u>\$ 5,161,000</u></b>	<b><u>\$ 5,305,500</u></b>

**Bonds Payable:**

Current Portion	\$ 150,500	\$ 144,500
Noncurrent Portion	<u>5,010,500</u>	<u>5,161,000</u>
<b>Total Bonds Payable</b>	<b><u>\$ 5,161,000</u></b>	<b><u>\$ 5,305,500</u></b>

**Accrued Compensated Absences:**

Current Portion	\$ 38,024	\$ 40,836
Noncurrent Portion	-	-
<b>Total Accrued Compensated Absences</b>	<b><u>\$ 38,024</u></b>	<b><u>\$ 40,836</u></b>

**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, 2017 and 2016**

**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, 2017 and 2016.

**December 31, 2017**

	Balance at January 1, 2017	Additions	Retirements	Balance at December 31, 2017	Current Portion
Notes Payable	\$ 1,121,127	\$ -	\$ (108,111)	\$ 1,013,016	\$ 113,601
Bonds Payable	5,305,500	-	(144,500)	5,161,000	150,500
Accrued Compensated Absences	40,836	21,058	(23,870)	38,024	38,024
<b>Total Enterprise Fund Debt</b>	<b>\$ 6,467,463</b>	<b>\$ 21,058</b>	<b>\$ (276,481)</b>	<b>\$ 6,212,040</b>	<b>\$ 302,125</b>

**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>

The annual requirements for all long-term debt outstanding at December 31, 2017, 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
2018	\$ 113,652	\$ 18,992	\$ 2,075	\$ 150,500	\$ 171,854	\$ 450	\$ 11,991	\$ 469,514
2019	116,120	16,524	1,843	157,000	166,976	450	11,781	470,694
2020	118,643	14,001	1,606	163,000	161,937	450	11,571	471,208
2021	121,222	11,421	1,364	170,500	156,655	450	11,351	472,963
2022	123,859	8,784	1,117	171,500	151,272	450	11,120	468,102
2023-27	277,699	12,900	2,630	956,500	668,812	2,250	51,870	1,972,661
2028-32	37,498	4,690	1,563	1,147,000	490,438	2,250	44,782	1,728,221
2033-37	38,928	3,260	1,087	1,255,000	264,193	2,250	36,320	1,601,038
2038-42	40,412	1,775	592	532,500	90,648	900	26,218	693,045
2043-47	24,983	328	109	345,500	28,132	-	14,133	413,185
2048-50	-	-	-	112,000	3,544	-	1,465	117,009
	<b>\$ 1,013,016</b>	<b>\$ 92,675</b>	<b>\$ 13,986</b>	<b>\$ 5,161,000</b>	<b>\$ 2,354,461</b>	<b>\$ 9,900</b>	<b>\$ 232,602</b>	<b>\$ 8,877,640</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>

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
December 31, 2017 and 2016

**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, 2017 and 2016, respectively. Sick leave accumulated but not accrued at December 31, 2017 and 2016 was \$39,270 and \$35,424, respectively. At December 31, 2017 and 2016, a liability for accrued vacation due was recorded in the amount of \$38,024 and \$40,836, respectively.

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

Restricted for Debt Service:

RECD Revenue Bonds of 2005 Series A and B,  
2010 Series; Kentucky Rural Water Refunding  
Revenue Bonds, Series 2012 B and Kentucky  
Infrastructure Authority Note Payable

	December 31, 2017	December 31, 2016
Cash	\$ 1,328,105	\$ 1,301,606
Add: Accrued Interest Receivable	97	96
Less: Accrued Interest Payable	(70,373)	(71,999)
Total Restricted for Debt Service	\$ 1,257,829	\$ 1,229,703

Unrestricted net position was reduced by \$119,955 and \$59,161 for the years ended June 30, 2017 and 2016, respectively, as a result of the transactions recorded by the District to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability. The accounts affected were as follows:

	2017	2016
Increase (Decrease) in Deferred Outflows of Resources	\$ 68,735	\$ 47,089
(Increase) Decrease in Deferred Inflows of Resources	(23,828)	960
(Increase) Decrease in Net Pension Liability	(164,862)	(107,210)
Net Decrease in Unrestricted Net Position	\$ (119,955)	\$ (59,161)

**NOTE 11 – INTEREST EXPENSE**

Interest expense incurred for the years ended December 31, 2017 and 2016 was \$218,309 and \$225,356, respectively. No interest was capitalized in 2017 or 2016.

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2017 and 2016**

**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, 2017, may be obtained from <https://kyret.ky.gov/About/Internal-Audit/Documents/2017%20Audited%20Financial%20Statements%20and%20Independent%20Auditor’s%20Reports.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, 2017 may be obtained from <https://kyret.ky.gov/Employers/GASB/Audited%20Reports/DRAFT%202017%20Pension%20Proportionate%20Share%20Audit%20Report.pdf>. The Kentucky CERS GASB 68 Actuarial Report prepared by Gabriel, Roeder, Smith and Co. (GRS) may be obtained at [https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%202075%20Actuary%20Reports/GASB68 Actuarial Information CERS FY 017.pdf](https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%202075%20Actuary%20Reports/GASB68%20Actuarial%20Information%20CERS%20FY%202017.pdf).

**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. After July 1, 2009, 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



**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
 December 31, 2017 and 2016

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

Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

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

*Contributions* - Participating employers are 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, 2017 and 2016, participating employers contributed 18.68% and 17.06%, respectively, of each employee’s creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2017 and 2016, were 18.68% and 17.06%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

Employer contributions for the year ended June 30, 2017, were allocated 13.95% to CERS’s pension fund and 4.73% to CERS’ OPEB (health insurance) fund, respectively. Employer contributions for the year ended June 30, 2016, were allocated 11.91% to CERS’s pension fund and 5.15% to CERS’ OPEB (health insurance) fund, respectively.

For the fiscal years ended June 30, 2017 and 2016, 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. 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, for plan members who began participating on, or after, September 1, 2008, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and an additional 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.

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
 December 31, 2017 and 2016

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

*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, 2017, the actuarially determined contribution rates effective for fiscal year ending 2017 are calculated as of June 30, 2015. Based on the June 30, 2015 actuarial valuation report (produced by the prior actuary, Cavanaugh Macdonald Consulting, LLC), the actuarial methods and assumptions used to calculate these contribution rates are as follows:

Item	CERS Non-Hazardous
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay
Amortization Period:	28 Years, Closed
Investment Return:	7.50%
Inflation:	3.25%
Salary Increases:	4.00%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

In general, the assumptions and methods used in the valuation (as shown above) are based on the actuarial experience study for the five-year period ending June 30, 2013, submitted April 30, 2014, and adopted by the Board on December 4, 2014. The investment return, price inflation, and payroll growth assumption were adopted by the Board in May and July 2017 for use with the June 30, 2017 valuation in order to reflect future economic expectations.

These changes in assumptions since the prior valuation are as follows:

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

There were no changes in benefit terms during the years ended June 30, 2017 and 2016.

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

- **Shorter-Term (5 years and less):** The returns of the particular asset classes of the managed funds of the Systems, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2017 and 2016**

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

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

- **Medium-Term (5 to 30 years):** The returns of the particular asset classes of the managed funds of the Systems, measured on a rolling year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.
- **Longer-Term:** The total assets of the Systems should achieve a return of 6.25% for CERS pension and insurance plans. This is measured over 30 to 40 years which exceeds the actuarially required rate of return while also exceeding the return achieved by its total fund benchmark.

Asset Allocation Board Policy as of June 30, 2017 and 2016 were as follows:

	2017	2016
Combined Equity	50.80%	44.00%
Combined Fixed Income	14.00%	19.00%
Private Equity	10.00%	10.00%
Absolute Return	10.00%	10.00%
Real Return	8.00%	10.00%
Real Estate	5.00%	5.00%
Cash	2.20%	2.00%
	100.00%	100.00%

Total fund return for the years ended June 30, 2017 and 2016 were 13.47% and (0.52%), respectively.

The total pension liability is based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan’s fiscal year ending June 30, 2017, using generally accepted actuarial principles. Gabriel, Roeder, Smith & Co (GRS) did not conduct the June 30, 2016, actuarial valuation; however, GRS did replicate the prior actuary’s valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of their replication. Information disclosed for years prior to June 30, 2017, was prepared by KRS’s prior actuary, Cavanaugh Macdonald Consulting, LLC.

For the year ended June 30, 2016 the actuarial valuation date upon which the total pension liability was based was June 30, 2015. An expected total pension liability was 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.

***Mortality Assumption:***

**Pre-retirement mortality:** RP-2000 Combined Mortality Table projected with Scale BB to 2013. Male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%.

**Post-retirement mortality (non-disabled) :** RP-2000 Combined Mortality Table projected with Scale BB to 2013. Female mortality rates are set back one year.

**Post-retirement mortality (disabled):** RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013. Male mortality rates are set back four years.

These mortality assumptions assume a margin for future mortality improvement.

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2017 and 2016**

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

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

The single discount rate of 6.25% was used to measure the total pension liability for the fiscal year ending June 30, 2017. This single discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan’s fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the participating employers in the System contribute the actuarially determined contribution rate in all future years. The discount rate of 7.50% was used for the year ended June 30, 2016. The discount rate determination does not use a municipal bond rate.

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

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2017 and 2016], calculated using the discount rates of 6.25% and 7.5% for the years ended June 30, 2017 and 2016, respectively, as well as what CERS’ net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2017</u>	<u>1% Decrease [5.25%]</u>	<u>Current Discount [6.25%]</u>	<u>1% Increase [7.25%]</u>
Net Pension Liability	\$ 7,382,285,860	\$ 5,853,307,443	\$ 4,574,328,530
District’s Proportionate Share	1,231,586	976,507	763,135
<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	1,011,411	811,645	640,380

*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, 2017, and 2016 the District reported a liability of \$976,507 and \$811,645, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2017, and 2016 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, 2017, and 2016 the District’s proportion was 0.016683 and 0.016485 percent, respectively, which is an increase of 0.000198% and 0.001000% for the years ended June 30, 2017 and June 30, 2016, respectively.

The District’s total payroll for the fiscal year ended December 31, 2017 was \$453,454. Contributions to CERS were based on \$422,380 (eligible gross wages). The total employer contributions for the year ended December 31, 2017 were \$79,429.

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 pension contributions for the year ended December 31, 2016, were \$71,839.

All contributions were made as required during these years.

CARROLL COUNTY WATER DISTRICT NO. 1  
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
 December 31, 2017 and 2016

**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 contribution for the County Employees’ Retirement System’s year(s) ended December 31, 2017, and 2016 was 0.016683 and 0.016485 percent, respectively, of the System’s total contribution requirements for all employers.

For the year ended December 31, 2017, and December 31, 2016, the District recognized pension expense of \$199,385 and \$130,999, respectively. At December 31, 2017 and 2016 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	<u>December 31, 2017</u>		<u>December 31, 2016</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	\$ 1,211	\$ 24,788	\$ 3,543	\$ -
Change in Assumptions	180,192	-	42,997	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	8,223	490	2,699	1,450
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	12,078	-	76,303	-
District Contributions Made Subsequent to the NPL Measurement Date	<u>32,385</u>	<u>-</u>	<u>39,812</u>	<u>-</u>
<b>Total</b>	<u><u>\$ 234,089</u></u>	<u><u>\$ 25,278</u></u>	<u><u>\$ 165,354</u></u>	<u><u>\$ 1,450</u></u>

\$32,385 and \$39,812 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:

Year Ended December 31, 2017:	Increase (Decrease) to Pension Expense
2018	\$ 77,722
2019	76,643
2020	33,886
2021	<u>(11,825)</u>
	<u><u>\$ 176,426</u></u>

**CARROLL COUNTY WATER DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**December 31, 2017 and 2016**

**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

***Payable to the Pension Plan***

At December 31, 2017 and 2016, the District reported a payable of \$11,736 and \$10,393, respectively for the outstanding amount of contributions required for the years then ended. These amounts represent the employee withholding and employer match for the last month of the years then ended. The payable includes both pension and insurance contributions.

**NOTE 13 – ECONOMIC DEPENDENCY**

Carroll County Water District No. 1 provides water services to residential, commercial and industrial customers. It should be noted that 18.19% and 19.5% of total water revenue was received from two industries, North American Stainless and Gallatin Steel, for the years ended December 31, 2017 and 2016.

**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 \$15,774 and \$9,766 at December 31, 2017 and 2016, 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.

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.

During the 2018 Kentucky Legislature Session, House Bill 362 passed which caps CERS Employer Contribution rate increases up to 12% per year over the prior fiscal year for the period July 1, 2018 to June 30, 2028. The CERS Employer rate beginning July 1, 2018 will be 21.48%.

CARROLL COUNTY WATER DISTRICT NO. 1  
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
December 31, 2017 and 2016

**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 [District year beginning January 1, 2018]. 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.

Reporting requirements in regards to OPEB became effective for the Kentucky Retirement System for its year ended June 30, 2017. In its financial report including Schedules of Employer Allocations a net OPEB liability of \$335,385 was reported as attributable to the Carroll County Water District.

CARROLL COUNTY WATER DISTRICT NO. 1

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

Last Four Fiscal Years\*

	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.016683%	0.016485%	0.01638%	0.01649%
District's proportionate share of the net pension liability (asset)	\$ 976,507	\$ 811,645	\$ 704,435	\$ 535,000
District's covered-employee payroll	\$ 422,380	\$ 400,856	\$ 394,012	\$ 382,520
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	231.19%	202.48%	178.79%	139.86%
Plan fiduciary net position as a percentage of the total pension liability	53.3%	55.5%	59.97%	66.80%

\*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 2017.

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 investment return, price inflation and payroll growth assumptions were adopted by the Board of Trustees in May and July, 2017 for use with the June 30, 2017 valuation.

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.0% to 2.0%.
- 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.



**CARROLL COUNTY WATER DISTRICT NO. 1**

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

**County Employees Retirement System**

**Fiscal Years Ended December 31**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Contractually required contributions</b>	\$ 79,429	\$ 71,839	\$ 68,368	\$ 69,894	\$ 70,791
<b>Contributions in relation to the contractually required contributions</b>	79,429	71,839	68,368	69,894	70,791
<b>Contribution deficiency (excess)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>District's covered-employee payroll</b>	\$ 422,380	\$ 400,856	\$ 394,012	\$ 382,520	\$ 368,490
<b>Contributions as a percentage of covered-employee payroll</b>	18.81%	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

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

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

We have audited 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, the financial statements of Carroll County Water District No. 1 as of and for the year ended December 31, 2017, 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 6, 2018.

#### 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 as Items 2017-001 and 2017-002 that we consider to be material weaknesses.

**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 6, 2018

**CARROLL COUNTY WATER DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2017**

**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 2017-001 and 2017-002 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**

**2017-001 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). This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2016 as Item 2016-001.

**CRITERIA:**

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

**CAUSE:**

Cost of system improvements were not capitalized in all cases. Some accruals were not adjusted appropriately for payments made/received.

**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)**

**2017-002 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, 2016 as 2016-002.

**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**