

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

At December 31, 2017 and 2016

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

Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Gallatin County Water District as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Gallatin County Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gallatin County Water District, as of December 31, 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 6, the Schedule of the District's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 29, and the Schedule of the District's Contributions – County Employee Retirement System on page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2018, on our consideration of the Gallatin County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Gallatin County Water District'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 Gallatin County Water District's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

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

June 11, 2018

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

Our discussion and analysis of the Gallatin County Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2017. Please read it in conjunction with the District's financial statements, which begin on page 7.

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

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

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65").

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

FINANCIAL HIGHLIGHTS

The following are key financial highlights:

- Total assets at year-end were \$7,226,467 and deferred outflows of resources of \$142,190 exceed liabilities of \$4,051,177 and deferred inflows of resources of \$22,207 by \$3,295,273 (i.e. net position). Of the total net position, \$1,052,857 was unrestricted and was available to support short-term operations. Total net position increased from year end 2016 to 2017 in the amount of \$29,682.
- Total Operating Revenues increased by \$59,133 mainly attributed to an increase in commercial water sales and miscellaneous revenue generated from contractor damages.
- Total Operating Expenses decreased by \$59,081 mainly attributed to decreases in pumping utilities, depreciation, employee health insurance and maintenance of the distribution system.
- The District was in compliance with all debt covenants required by borrowing agreements.
- The District refinanced seven of the nine outstanding Rural Development Bonds with Kentucky Rural Water Finance Corporation at a lower interest rate reducing the total debt requirements by \$224,751.

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

Balance Sheet, Statement of Net Position

Utility Plant decreased by \$27,222 net of depreciation, in 2017. (See diagram below.)

Condensed Assets

	<u>2017</u>	<u>2016</u>	<u>Difference</u>
Utility Plant	\$ 5,286,812	\$ 5,314,034	\$ (27,222)
Current Assets	1,364,881	1,183,858	181,023
Other Non-current Assets	574,774	643,185	(68,411)
Total Net Assets	<u><u>\$ 7,226,467</u></u>	<u><u>\$ 7,141,077</u></u>	<u><u>\$ 85,390</u></u>

At the end of December 31, 2017, the District had \$5,286,812 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	<u>2017</u>	<u>2016</u>
Land & Rights	\$ 226,229	\$ 226,229
Structures & Improvements	226,563	235,917
Distribution System	4,613,860	4,621,196
Wells	183,167	195,372
Machinery & Equipment	36,993	35,320
Construction in Process	-	-
Totals	<u><u>\$ 5,286,812</u></u>	<u><u>\$ 5,314,034</u></u>

This year's major additions included:

- Upgrading the manual meter reading system to a new cellular based meter reading system. Phase one on the project has been completed and included all master meters and approximately 1,000 customer meters. Phase two of the project is expected to be completed by early summer of 2018.

Deferred outflows of resources and deferred inflows of resources associated with the District's Employees' Pension Plan were \$142,190 and \$103,294 outflows and \$22,207 and \$0, inflows for the years ended December 31, 2017 and 2016, respectively. The deferred outflows of resources include contributions to the pension plan made by the District subsequent to the net pension liability measurement date. Other deferred outflows and inflows are attributable to variances in the actual results versus the actuarial assumptions used by the pension plan, and therefore, reflect amounts arising from changes made in assumptions, cumulative changes in proportionate share, and differences between employee contributions and proportionate share of contributions. Cumulative differences between projected and actual investment earnings on pension plan investments also gave rise to deferred outflows of resources.

Long-term debt increased by \$28,035 attributable mainly to increases in the net pension liability, offset by principal retirement. In July, 2017 the District refinanced seven series of its outstanding Rural Development Revenue Bonds through Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvements Series. The issuance of the 2017A Revenue Bonds achieved a reduction of approximately \$225,000 in debt service requirements due to its lower interest rate.

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

Condensed Liabilities

	<u>2017</u>	<u>2016</u>	<u>Difference</u>
Long Term Debt	\$ 3,812,183	\$ 3,784,148	\$ 28,035
Current & Accrued Liabilities	238,994	194,632	44,362
Total Liabilities	<u>\$ 4,051,177</u>	<u>\$ 3,978,780</u>	<u>\$ 72,397</u>

Net Position

At December 31, 2017, net position increased \$29,682, as a result of contributions in aid of construction of \$7,814 in addition the District income from operations (before contributions) of \$21,868.

Condensed Net Position

	<u>2017</u>	<u>2016</u>	<u>Difference</u>
Net Investment in Capital Assets	\$ 1,977,993	\$ 1,968,433	\$ 9,560
Restricted for Debt Service	237,005	365,557	(128,552)
Unrestricted	1,080,275	931,601	148,674
Total	<u>\$ 3,295,273</u>	<u>\$ 3,265,591</u>	<u>\$ 29,682</u>

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

Operating Revenues for 2017 increased by \$59,133. Operating expenses decreased by \$59,081 in 2017. Depreciation also decreased.

Condensed Statement of Revenues and Expenses

	<u>2017</u>	<u>2016</u>	<u>Difference</u>
Operating Revenues	\$ 1,161,096	\$ 1,101,963	\$ 59,133
Operating Expenses	957,533	1,016,614	(59,081)
Net-Operating Revenue	\$ 203,563	\$ 85,349	\$ 118,214
Non-Operating Revenue (Expenses)	(181,695)	(129,626)	(52,069)
Income (Loss) Before Contributions	<u>\$ 21,868</u>	<u>\$ (44,277)</u>	<u>\$ 66,145</u>

Statement of Cash Flows

Cash from Operating Activities was up \$51,840 in 2017. Cash from capital and related financing activities in 2017 reflect the monies received and used to finance capital improvements and equipment. Cash used in investing activities reflects the District's investment in certificates of deposit. Cash is consistent with expectations for the year.

Condensed Statement of Cash Flows

	<u>2017</u>	<u>2016</u>	<u>Difference</u>
Cash from Operating Activities	\$ 496,021	\$ 444,181	\$ 51,840
Cash from Capital & Related Financing Activities	(510,271)	(266,584)	(243,687)
Cash from Investing Activities	2,109	(198,437)	200,546
Change in Cash	\$ (12,141)	\$ (20,840)	\$ 8,699
Cash Balance, Beginning of Year	809,550	830,390	(20,840)
Cash Balance, End of Year	<u>\$ 797,409</u>	<u>\$ 809,550</u>	<u>\$ (12,141)</u>

**GALLATIN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017**

Debt

At year-end, the District had \$3,231,335 in notes payable, bonds payable and accrued compensated absences compared to \$3,348,086 last year as shown below. The decrease is attributable to the payment of scheduled principal and interest payments.

	<u>2017</u>	<u>2016</u>
Notes Payable	\$ 371,108	\$ 396,101
Bonds Payable	2,856,800	2,949,500
Accrued Compensated Absences	3,427	2,485
Totals	<u>\$ 3,231,335</u>	<u>\$ 3,348,086</u>

Net Pension Liability

The District's adoption of GASB 68 and GASB 71 requires that the District report its proportionate share of the net pension liability associated with its employees' pension plan (the County Employee Retirement System). The District's proportionate share was \$591,535 and \$510,172 for the years ended December 31, 2017 and 2016 and was based on measurement dates of June 30, 2017 and 2016, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District anticipates an increase in operating expenses in 2018 due to a 12% increase in Retirement Plan contributions. The expected cost to the District is 21.48% of eligible employee wages.

The District anticipates no changes in customer rates but anticipates an increase in revenues associated with the efficiencies of the new meter reading system. Phase two of the project should be completed by mid-summer 2018.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office at 4500 Highway 455, Sparta, KY 41086.

Tammy Hendren
Office Manager

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 1,039,092	\$ 1,003,344
Accounts Receivable Trade (Net)	130,026	121,531
Accounts Receivable - Other	48	166
Interest Receivable	2,134	1,712
Inventory	151,712	43,104
Prepaid Expense	14,451	14,001
Total Current Assets	\$ 1,337,463	\$ 1,183,858
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 602,033	\$ 643,026
Interest Receivable	159	159
Capital Assets (Net)	5,286,812	5,314,034
Total Noncurrent Assets	\$ 5,889,004	\$ 5,957,219
Total Assets	\$ 7,226,467	\$ 7,141,077
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 142,190	\$ 103,294
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 80,695	\$ 11,691
Accrued Wages	4,791	4,645
Accrued Compensated Absences	3,427	2,485
Accrued Payroll Taxes/Employee Withholding	6,934	8,176
Utility Tax Payable	2,579	2,443
Sales Tax Payable	634	485
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	59,915	66,214
Revenue Bonds Payable	54,700	73,500
Note Payable - Kentucky Infrastructure Authority	25,319	24,993
Total Current Liabilities	\$ 238,994	\$ 194,632
Noncurrent Liabilities:		
Revenue Bonds Payable (Including Premium \$46,315 for 2017 and \$0 for 2016)	\$ 2,848,415	\$ 2,876,000
Note Payable - Kentucky Infrastructure Authority	345,789	371,108
Escrow - Customer Construction Deposits	1,152	350
Net Pension Liability	591,535	510,172
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	25,292	26,518
Total Noncurrent Liabilities	\$ 3,812,183	\$ 3,784,148
Total Liabilities	\$ 4,051,177	\$ 3,978,780
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 22,207	\$ -
NET POSITION		
Net Investment in Capital Assets	\$ 1,977,993	\$ 1,968,433
Restricted for Debt Service	264,423	365,557
Unrestricted	1,052,857	931,601
Total Net Position	\$ 3,295,273	\$ 3,265,591

GALLATIN COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2017 and 2016

Operating Revenues:	<u>2017</u>	<u>2016</u>
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,091,695	\$ 1,039,911
Total Charges for Services	<u>\$ 1,091,695</u>	<u>\$ 1,039,911</u>
Other Charges and Miscellaneous:		
Billing Service Charges	\$ 32,928	\$ 33,220
Connection Fees	25,865	28,000
Miscellaneous	10,608	832
Total Other Charges and Miscellaneous	<u>\$ 69,401</u>	<u>\$ 62,052</u>
Total Operating Revenues	<u>\$ 1,161,096</u>	<u>\$ 1,101,963</u>
 Operating Expenses:		
Bank Charges	\$ 1,726	\$ 1,952
Commissioner Fees	7,200	8,400
Contractual Service - Sampling	16,230	6,410
Dues	1,663	1,599
Employee Health Insurance and Benefits	94,497	105,604
Insurance	23,777	23,582
Labor	232,488	240,587
Maintenance of Mains	33,818	60,783
Office Supplies and Expense	31,140	23,699
Other Interest Expense	151	96
Payroll Taxes	17,258	16,752
Professional Services	14,090	13,640
Purchased Water	7,823	8,034
Regulatory Fees	2,213	2,122
Retirement Expense	108,494	82,759
Travel/Transportation Expense	15,132	17,377
Uniforms	4,980	4,900
Utilities - Office	13,032	13,054
Utilities - Pumping	54,511	62,309
Depreciation Expense	277,310	322,955
Total Operating Expenses	<u>\$ 957,533</u>	<u>\$ 1,016,614</u>
Operating Income (Loss)	<u>\$ 203,563</u>	<u>\$ 85,349</u>
 Nonoperating Revenue (Expense):		
Investment Income	\$ 9,427	\$ 8,000
Interest Expense	(128,470)	(137,626)
Loss on Asset Disposition	(22,413)	-
Bond Issuance Costs	(40,239)	-
Total Nonoperating Revenues (Expense)	<u>\$ (181,695)</u>	<u>\$ (129,626)</u>
Income (Loss) Before Contributions	\$ 21,868	\$ (44,277)
Capital Contributions	<u>7,814</u>	<u>16,636</u>
Change in Net Position	\$ 29,682	\$ (27,641)
Net Position--Beginning of Year	<u>3,265,591</u>	<u>3,293,232</u>
Net Position--End of Year	<u>\$ 3,295,273</u>	<u>\$ 3,265,591</u>

**GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,151,778	\$ 1,104,502
Payments to Suppliers	(81,695)	(77,802)
Payments to Employees	(238,600)	(247,002)
Other Receipts (Payments)	(335,462)	(335,517)
Net Cash Provided (Used) by Operating Activities	\$ 496,021	\$ 444,181
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 8,616	\$ 16,636
Purchases of Capital Assets	(272,501)	(49,890)
Bond Proceeds	1,226,315	-
Bond Issuance Costs Paid	(40,239)	-
Principal Paid on Capital Debt	(1,297,693)	(94,071)
Interest Paid on Capital Debt	(134,769)	(139,259)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (510,271)	\$ (266,584)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	\$ (110,696)	\$ (206,263)
Cashed Investments	103,847	-
Interest on Investments	8,958	7,826
Net Cash Provided (Used) by Investing Activities	\$ 2,109	\$ (198,437)
Net (Increase) in Cash and Cash Equivalents	\$ (12,141)	\$ (20,840)
Balances-Beginning of the Year	809,550	830,390
Balances-End of the Year	\$ 797,409	\$ 809,550

	Balances Per December 31, 2017 Statement of Net Position	Balances Per December 31, 2017 Statement of Cash Flows
Cash	\$ 299,177	\$ 299,177
Time Deposits	739,915	-
Restricted Cash	498,232	498,232
Restricted Time Deposits	103,801	-
Total Cash and Cash Equivalents, End of Year	\$ 1,641,125	\$ 797,409

	Balances Per December 31, 2016 Statement of Net Position	Balances Per December 31, 2016 Statement of Cash Flows
Cash	\$ 242,450	\$ 242,450
Time Deposits	760,894	-
Restricted Cash	567,100	567,100
Restricted Time Deposits	75,926	-
Total Cash and Cash Equivalents, End of Year	\$ 1,646,370	\$ 809,550

(Continued)

**GALLATIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016**

	2017	2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 203,563	\$ 85,349
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	277,310	322,955
Pension Expense	64,674	40,112
Change in Assets and Liabilities:		
Receivables, Net	(8,377)	379
Inventories	(108,608)	(7,512)
Prepaid Expenses	(450)	(1,279)
Accounts and Other Payables	69,004	(194)
Accrued Expenses	131	2,416
Customer Meter Deposits Payable	(1,226)	1,955
Net Cash Provided by Operating Activities	\$ 496,021	\$ 444,181

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2017 and 2016, Gallatin County Water District had no capital expenditures or other noncash investing activities outstanding.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

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

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

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

Inventory: Inventories are stated at latest cost.

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

Pension: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Bond Premium: Original issue debt premiums are amortized as a component of interest expense over the life of the associated debt using the interest method. Unamortized premiums are reported as an addition to the face amount of the debt in the Statement of Net Position.

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

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

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. No grant monies were received in the years ended December 31, 2017 and 2016. Tap-on fees of \$7,814 and \$16,636 were received by the District for the years ended December 31, 2017 and 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, Gallatin County Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016**

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

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

+	one sixth (1/6) of the next semiannual interest payment
=	<u>one twelfth (1/12) of next annual principal payment</u>
	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.

A funded depreciation reserve account was required in accordance with the original RECD Bond issue and was continued with the District's subsequent issues. The 2006 Bond Resolution requires an transfer of \$865 per month until \$103,800 is accumulated in the reserve. The deposits must be resumed any time the account(s) fall below the balance indicated.

A funded maintenance and replacement reserve is required by the District's Assistance Agreement (B99-02) with the Kentucky Infrastructure Authority. Under the agreement, the District must deposit into this account an amount equal to 10% of the amount of the loan payment until the amount accumulated on deposit is equal to 5% of the original principal amount of the loan. Transfers for the year ended December 31, 2017 were short approximately \$3,200 which was transferred in January, 2018 to restore the account to its fully funded balance. Transfers were made as required in 2016.

A funded short lived asset account is required under the letter of conditions establishing funding for the 2006 system improvement project. Under this agreement, the District must deposit \$5,535 monthly into the account. This account may be used as needed to replace or add short lived assets in the District's water system. Transfers began in January, 2008. During 2016, \$27,204 was used to finance a new maintenance vehicle. No withdrawals were made in 2017.

NOTE 3 – CASH AND INVESTMENTS

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

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2017 and 2016, in accordance with the District's policy, \$1,555,907 and \$1,643,124 respectively, of the District's deposits were covered by federal depository insurance or Federal Home Loan Bank letters of credit. Additionally the depository had pledged securities held by the financial institution's agent in the District's name with market values of \$248,155 and \$206,659 at December 31, 2017 and 2016, respectively as additional collateral. Thus the District had no deposits that were exposed to custodial credit risk.

December 31, 2017

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 296,613	\$ 299,087
Time and Savings Deposits	1,341,949	1,341,948
Total Deposits	\$ 1,638,562	\$ 1,641,035

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016**

NOTE 3 – CASH AND INVESTMENTS (Continued)

December 31, 2016

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 239,204	\$ 242,360
Time and Savings Deposits	1,403,920	1,403,920
Total Deposits	<u>\$ 1,643,124</u>	<u>\$ 1,646,280</u>

Reconciliation to Statement of Net Position:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unrestricted Cash, Including Time Deposits	\$ 1,066,510	\$ 1,003,344
Restricted Cash, Including Time Deposits	574,615	643,026
Less Cash on Hand	(90)	(90)
	<u>\$ 1,641,035</u>	<u>\$ 1,646,280</u>

NOTE 4 – RESTRICTED ASSETS

Restricted cash and investments consist of the following:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Bond and Interest Sinking Account - RD	\$ 62,537	\$ 141,808
Depreciation Account	174,215	252,386
Customer Deposits	32,286	33,100
Speedway Maintenance and Replacement Reserve	34,057	37,418
Short Lived Assets Account	245,568	178,314
Bond and Interest Sinking Account - KRWF	53,370	-
Total	<u>\$ 602,033</u>	<u>\$ 643,026</u>

Restricted receivables consist of the following:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Interest Receivable	\$ 159	\$ 159
Total	<u>\$ 159</u>	<u>\$ 159</u>

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$8,969 and \$8,137 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.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016**

NOTE 6 – 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	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	360,165	-	-	360,165
Distribution System	8,915,313	264,970	36,595	9,143,688
Wells	372,187	-	-	372,187
Machinery & Equipment	284,161	7,531	1,138	290,554
Totals at Historical Cost	\$ 10,189,981	\$ 272,501	\$ 37,733	\$ 10,424,749
Less: Accumulated Depreciation				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	124,248	9,354	-	133,602
Distribution System	4,294,117	249,893	14,182	4,529,828
Wells	176,815	12,205	-	189,020
Machinery & Equipment	248,841	5,858	1,138	253,561
Total Accumulated Depreciation	\$ 4,875,947	\$ 277,310	\$ 15,320	\$ 5,137,937
Capital Assets, Net	\$ 5,314,034	\$ (4,809)	\$ (22,413)	\$ 5,286,812

	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016
Land & Land Rights	\$ 226,229	\$ -	\$ -	\$ 226,229
Organizational Fees	31,926	-	-	31,926
Structures & Improvements	360,165	-	-	360,165
Distribution System	8,892,627	22,686	-	8,915,313
Wells	372,187	-	-	372,187
Machinery & Equipment	256,957	27,204	-	284,161
Totals at Historical Cost	\$ 10,140,091	\$ 49,890	\$ -	\$ 10,189,981
Less: Accumulated Depreciation				
Organizational Fees	\$ 31,926	\$ -	\$ -	\$ 31,926
Structures & Improvements	114,894	9,354	-	124,248
Distribution System	4,009,035	285,082	-	4,294,117
Wells	162,907	13,908	-	176,815
Machinery & Equipment	234,230	14,611	-	248,841
Total Accumulated Depreciation	\$ 4,552,992	\$ 322,955	\$ -	\$ 4,875,947
Capital Assets, Net	\$ 5,587,099	\$ (273,065)	\$ -	\$ 5,314,034

Land and land rights are capital assets not being depreciated. Included under the District's plant assets were \$1,533,914 and \$530,795 of fully depreciated assets, at December 31, 2017 and 2016, respectively.

Depreciation expense aggregated \$277,310 and \$322,955 in 2017 and 2016, respectively.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016**

NOTE 7 – CUSTOMER DEPOSITS/ESCROW

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

Escrow - Customer construction deposits represent amounts collected for hookups on future line extensions and/or hookup deposits held for services not installed.

NOTE 8 – LONG-TERM DEBT

On July 11, 2017, the Gallatin County Water District issued \$1,180,000 Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2017A to defease the \$1,199,200 of its 1988A, 1988B, 1993, 1996, 2000A, 2000B and 2002 bonds outstanding as of that date. The defeased bonds had interest rates as follows: 1988A, 1988B, 1993 and 2000B – 5%; 1996 and 2000A – 4.87%; 2002 – 4.625%. The 2017A bonds were issued at 3.2% to 4.2%. As a result of the defeasement, the District reduced its total debt service requirements by \$224,751, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$122,808. Final maturity on the 2017A issue is July 1, 2039. Underwriting expenses and other costs of issuance were \$40,239. A reoffering premium was received in the amount of \$49,007. The premium will be amortized as a reduction of interest expense over the life of the new issue.

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 note payable represents a thirty year loan secured by water revenues. Interest is charged at 1.3% per annum. The original principal balance was \$744,796. Payments of principal, interest, and servicing fees are due semiannually. Final maturity is June 1, 2031.	\$ 371,108	\$ 396,101
Total Notes Payable	\$ 371,108	\$ 396,101
Current Portion	\$ 25,319	\$ 24,993
Noncurrent Portion	345,789	371,108
Total Notes Payable	\$ 371,108	\$ 396,101

Bonds Payable:

RECD Revenue Bonds of 1988 Series A, original issue amount of \$290,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Refinanced July, 2017.	\$ -	\$ 153,000
RECD Revenue Bonds of 1988 Series B, original issue amount of \$108,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Refinanced July, 2017.	-	59,000
RECD Revenue Bonds of 1993, original issue amount of \$420,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Refinanced July, 2017.	-	269,000

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016**

NOTE 8 – LONG-TERM DEBT (Continued)

Bonds Payable: (Continued)

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
RECD Revenue Bonds of 1996, original issue amount of \$371,000, secured by water revenues. Interest is charged at the rate of 4.875% per annum. Refinanced July, 2017.	-	269,000
RECD Revenue Bonds of 2000 Series A, original issue amount of \$370,000, secured by water revenues. Interest is charged at the rate of 4.875% per annum. Refinanced July, 2017.	-	294,400
RECD Revenue Bonds of 2000 Series B, original issue amount of \$112,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Refinanced July, 2017.	-	89,900
RECD Revenue Bonds of 2002, original issue amount of \$130,000, secured by water revenues. Interest is charged at the rate of 4.625% per annum. Refinanced July, 2017.	-	110,000
RECD Revenue Bonds of 2006, Series A, original issue amount of \$1,394,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is January 1, 2046.	1,233,000	1,254,000
RECD Revenue Bonds of 2006, Series B original issue amount of \$500,000, secured by water revenues. Interest is charged at the rate of 4.125% per annum. Final maturity is January 1, 2046.	443,800	451,200
KRWFC Flexible Term Program Series 2017A, original issue amount of \$1,180,000, secured by water revenues. Interest is charged at the rate of 3.2% to 4.2% per annum. Final maturity is January 1, 2039.	1,180,000	-
Total Bonds Payable	\$ 2,856,800	\$ 2,949,500
Current Portion	\$ 54,700	\$ 73,500
Noncurrent Portion	2,802,100	2,876,000
Total Bonds Payable	\$ 2,856,800	\$ 2,949,500

Accrued Compensated Absences:

Current Accrued Compensated Absences	\$ 3,427	\$ 2,485
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Bond Premium

Bond Premium associated with the Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds, Series 2017A is to be amortized over the life of the bonds and reported as a component of interest expense using the interest method. The original premium received at the issuance of the 2017A Series, July 11, 2017, was \$49,007. Amortization for the year ended December 31, 2017 was \$2,692 leaving a balance of unamortized premium of \$46,315.

**GALLATIN COUNTY WATER DISTRICT
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

	<u>Balance at January 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2017</u>	<u>Current Portion</u>
Notes Payable	\$ 396,101	\$ -	\$ 24,993	\$ 371,108	\$ 25,319
Bonds Payable	2,949,500	1,180,000	1,272,700	2,856,800	54,700
Accrued Compensated Absences	2,485	13,855	12,913	3,427	3,427
Total Enterprise Fund Debt	<u>\$ 3,348,086</u>	<u>\$ 1,193,855</u>	<u>\$ 1,310,606</u>	<u>\$ 3,231,335</u>	<u>\$ 83,446</u>

December 31, 2016

	<u>Balance at January 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Current Portion</u>
Notes Payable	\$ 420,772	\$ -	\$ 24,671	\$ 396,101	\$ 24,993
Bonds Payable	3,018,900	-	69,400	2,949,500	73,500
Accrued Compensated Absences	1,545	940	-	2,485	2,485
Total Enterprise Fund Debt	<u>\$ 3,441,217</u>	<u>\$ 940</u>	<u>\$ 94,071</u>	<u>\$ 3,348,086</u>	<u>\$ 100,978</u>

The annual requirements for all long-term debt outstanding at December 31, 2017, are as follows:

<u>Due</u>	<u>Bonds</u>	<u>Bond Interest</u>	<u>KIA Note</u>	<u>Note Interest</u>	<u>Note Servicing Fee</u>	<u>Total Payments Due</u>
2018	\$ 54,700	\$ 115,277	\$ 25,319	\$ 4,742	\$ 730	\$ 200,768
2019	86,100	109,856	25,649	4,412	679	226,696
2020	92,400	106,132	25,984	4,078	627	229,221
2021	93,800	102,246	26,322	3,739	575	226,682
2022	100,200	98,198	26,666	3,395	522	228,981
2023-2027	555,700	424,974	138,637	11,669	1,795	1,132,775
2028-2032	579,600	312,347	102,531	2,683	413	997,574
2033-2037	489,800	211,378	-	-	-	701,178
2038-2042	434,000	119,154	-	-	-	553,154
2043-2046	370,500	31,356	-	-	-	401,856
	<u>\$ 2,856,800</u>	<u>\$ 1,630,918</u>	<u>\$ 371,108</u>	<u>\$ 34,718</u>	<u>\$ 5,341</u>	<u>\$ 4,898,885</u>

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016**

NOTE 8 – LONG-TERM DEBT (Continued)

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

<u>Due</u>	<u>Bonds</u>	<u>Bond Interest</u>	<u>KIA Note</u>	<u>Note Interest</u>	<u>Note Servicing Fee</u>	<u>Total Payments Due</u>
2017	\$ 73,500	\$ 131,438	\$ 24,993	\$ 5,068	\$ 780	\$ 235,779
2018	77,000	128,039	25,319	4,742	730	235,830
2019	81,200	124,479	25,649	4,412	679	236,419
2020	83,900	120,722	25,984	4,078	627	235,311
2021	88,300	116,843	26,322	3,739	575	235,779
2022-2026	509,400	518,869	136,852	13,454	2,070	1,180,645
2027-2031	569,600	392,451	130,982	4,294	661	1,097,988
2032-2036	529,000	265,702	-	-	-	794,702
2037-2041	476,600	154,254	-	-	-	630,854
2042-2046	461,000	58,051	-	-	-	519,051
	<u>\$ 2,949,500</u>	<u>\$ 2,010,848</u>	<u>\$ 396,101</u>	<u>\$ 39,787</u>	<u>\$ 6,122</u>	<u>\$ 5,402,358</u>

NOTE 9 – COMPENSATED ABSENCES

Vacation days accumulate as follows:

At the end of 1 st year	1 week of vacation
At the end of 2 nd year	2 weeks of vacation
At the end of 5 th year	3 weeks of vacation

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

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

In accordance with the above criteria, the District accrues a liability for compensated absences. \$3,427 and \$2,485 of accrued compensated absences were payable at December 31, 2017 and December 31, 2016, respectively.

NOTE 10 – INTEREST EXPENSE

Interest expense incurred and charged to expense, net of bond premium, for the years ended December 31, 2017 and 2016 was \$128,621 and \$137,722, respectively. No interest was capitalized in 2017 or 2016.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016**

NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION

	2017	2016
Restricted for Debt Service:		
RECD Revenue Bonds of 1988, 1993, 1996, 2000, 2002 and 2006		
Kentucky Infrastructure Authority Note		
Cash	\$ 324,179	\$ 431,612
Add: Accrued Interest Receivable	159	159
Less: Accrued Interest Payable	(59,915)	(66,214)
Total Restricted for Debt Service	\$ 264,423	\$ 365,557

Unrestricted net position was reduced by \$64,674 and \$40,112 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	38,896	28,026
(Increase) Decrease in Deferred Inflows of Resources	(22,207)	-
(Increase) Decrease in Net Pension Liability	(81,363)	(68,138)
Net Decrease in Unrestricted Net Position	(64,674)	(40,112)

NOTE 12 – BAD DEBT EXPENSE

Water revenue charges have been netted with estimated bad debt expense of \$8,094 and \$6,708 at December 31, 2017 and 2016, respectively.

NOTE 13 – INSURANCE AND RELATED ACTIVITIES

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

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

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

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The most recent financial report, dated June 30, 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%2075%20Actuary%20Reports/GASB68 Actuarial Information CERS FY2017.pdf](https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/GASB68%20Actuarial%20Information%20CERS%20FY2017.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

**GALLATIN COUNTY WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2017 and 2016**

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

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 COLAs were limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

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

Method Used to Value Investments – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS’ gains and losses on investments bought and sold as well as held during the fiscal year.

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

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

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

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

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

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.

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:

GALLATIN COUNTY WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2017 and 2016

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

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

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.
- **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.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016**

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

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

- **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.

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.

**GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016**

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

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	746,053	591,535	462,281
<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	635,757	510,172	402,521

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 \$591,535 and \$510,172, 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 0.010106 and 0.010362 percent, respectively, which is a decrease of 0.000256% and an increase of 0.00008% 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 \$252,449. Contributions to CERS were based on \$245,249 (eligible gross wages). The total employer contributions for the year ended December 31, 2017 were \$46,422.

The District’s total payroll for the fiscal year ended December 31, 2016, was \$252,805. Contributions to CERS were based on \$244,405 (eligible gross wages). The total employer pension contributions for the year ended December 31, 2016, were \$43,683.

All contributions were made as required during these years.

The District’s contribution for the County Employees’ Retirement System’s year(s) ended December 31, 2017, and 2016 was 0.010106 and 0.010362 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 \$108,494 and \$82,759, 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:

GALLATIN COUNTY WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2017 and 2016

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

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

	December 31, 2017		December 31, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 734	\$ 15,016	\$ 2,227	\$ -
Change in Assumptions	109,154	-	27,026	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,600	7,191	3,152	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	7,317	-	47,961	-
District Contributions Made Subsequent to the NPL Measurement Date	23,385	-	22,928	-
Total	<u>\$ 142,190</u>	<u>\$ 22,207</u>	<u>\$ 103,294</u>	<u>\$ -</u>

\$23,385 and \$22,928 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	\$	44,086
2019		42,469
2020		17,621
2021		(7,578)
	\$	<u>96,598</u>
Year Ended December 31, 2016:		Increase (Decrease) to Pension Expense
2017	\$	30,122
2018		20,610
2019		18,964
2020		10,670
	\$	<u>80,366</u>

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

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

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

Payable to the Pension Plan

At December 31, 2017 and 2016, the District reported a payable of \$5,464 and \$6,509, respectively for the outstanding amount of contributions required for the years then ended. These amounts represent the employee withholding and employer match for the last month of the years then ended. The payable includes both pension and insurance contributions.

NOTE 15 – RESALE AGREEMENT

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

NOTE 16 - PURCHASED WATER CONTRACT

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

NOTE 17 – WATER SUPPLY AGREEMENT – ECONOMIC DEPENDENCY

The District has entered into a water-supply agreement with Kentucky Speedway, LLC. Under the terms of the agreement, Kentucky Speedway, LLC is assessed an annual minimum charge of \$35,000 for annual usage equal to that charge under the District's approved rates. The Speedway is billed monthly the minimum installment plus sales tax and school tax. When accumulated usage exceeds the annual maximum, the Speedway is charged the current rates in effect for that usage. 3.2% and 3.6% of total water revenue was received from Kentucky Speedway, LLC for the years ended December 31, 2017 and 2016, respectively.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Under the health plan adopted by the District, employee deductibles for the year ended December 31, 2016, were \$3,000 (single plan) and \$6,000 (family plan). Under the plan, the District paid for eligible medical expenditures incurred by employees above the maximum employee costs determined by the District of \$500 (single plan) and \$1,000 (family plan). Any unused deductible remains with the District and does not accrue to the benefit of the employee. The policy was discontinued as of January 1, 2017.

In March, 2017, the District entered into a contract to acquire Beacon AMA Cellular Read Meters at a cost of \$447,274. The District is financing the project through its own cash reserves. The District anticipates the cellular read meters to be installed in two phases over a two year period. During 2017, the District installed \$213,391 of the radio read meters. At December 31, 2017, the District had approximately \$100,300 in meters on hand and included in inventory.

In April, 2018, the District identified a desire to proceed with plans to inspect and paint/repair its tanks. The cost is estimated to be approximately \$223,000. The District is in the process of developing the criteria for bid advertisements.

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%.

GALLATIN COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 19 – 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 \$203,165 was reported as attributable to the Gallatin County Water District.

GALLATIN COUNTY WATER DISTRICT

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)	0.010106%	0.010362%	0.010281%	0.010202%
District's proportionate share of the net pension liability (asset)	\$ 591,535	\$ 510,172	\$ 442,034	\$331,000
District's covered-employee payroll	\$245,249	\$ 244,405	\$ 241,061	\$243,426
District's proportionate share of the net pension liability (asset) as a percentage of its of its covered-employee payroll	241.20%	208.74%	183.37%	135.98%
Plan fiduciary net position as a percentage of the total pension liability	53.3%	55.5%	59.97%	66.80%

*Calculations 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 7.5% 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.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

County Employees Retirement System

Fiscal Years Ended December 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contributions	\$ 46,422	\$ 43,683	\$ 41,836	\$ 44,467	\$ 43,228
Contributions in relation to the contractually required contributions	46,422	43,683	41,836	44,467	43,228
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 245,249	\$ 244,405	\$ 241,061	\$ 243,426	\$ 225,007
Contributions as a percentage of covered-employee payroll	18.93%	17.87%	17.35%	18.27%	19.21%

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

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gallatin County Water District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Gallatin County Water District's basic financial statements, and have issued our report thereon dated June 11, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been 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 Gallatin County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

GALLATIN COUNTY WATER DISTRICT'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Raisor, Zapp & Woods, PSC

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

June 11, 2018

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2017**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Gallatin County Water District were prepared in accordance with GAAP.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 2017-001 and 2017-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Gallatin County Water District were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

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 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:

One individual is responsible for posting the general ledger. Mispostings may occur and not be recognized.

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.

**GALLATIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
For the Year Ended December 31, 2017**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (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 prepare the draft of the financial statements, including the related notes to the financial statements.

RECOMMENDATION:

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

RESPONSE:

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

COMPLIANCE AND OTHER MATTERS

NONE