

**WOOD CREEK WATER DISTRICT
INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis.....	4
Basic Financial Statements	
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Basic Financial Statements	10-24
Required Supplemental Information	
Schedule of the District's Proportionate Share of Net Pension Liability – County Employees Retirement System.....	26
Schedule of the District's Contributions – County Employees Retirement System	27
Notes to the Required Supplementary Information.....	28
Supplemental Information	
Departmental Statement of Net Position – Water Fund.....	29
Departmental Statement of Revenues, Expenses and Changes in Net Position – Water Fund.....	30
Departmental Statement of Cash Flows – Water Fund	31
Departmental Statement of Net Position – Sewer Fund	32
Departmental Statement of Revenues, Expenses and Changes in Net Position – Sewer Fund	33
Departmental Statement of Cash Flows – Sewer Fund.....	34
Internal Control and Compliance	
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 <i>Government Auditing Standards</i>	35



Cloyd & Associates, PSC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Commissioners
Wood Creek Water District
London, Kentucky

We have audited the accompanying financial statements of the business-type activities of Wood Creek 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 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 opinions 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 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 opinions.

1700 Forest Drive, Corbin, KY 40701
Ph. 606.528.8776 Fax: 606.523.5457

2410 Greatstone Point, Lexington, KY 40504
Ph. 859.223.3318 Fax: 859.223.5875

1301 West 5th Street, London, KY 40741
Ph. 606.864.8110 Fax: 606.864.8471



www.cloydcpa.com



Cloyd & Associates, PSC
Certified Public Accountants

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Wood Creek Water District as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 11* to the financial statements, the District changed its valuation date of their allocated pension liability, deferred outflows, and deferred inflows for the County Employment Retirement System (CERS). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 and Schedule of District's Proportionate Share of Net Pension Liability and Schedule of Pension Contributions on pages 26 through 28 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying departmental statements for the water and sewer fund are presented separately for the purpose of additional analysis and are not required part of the financial statements.

1700 Forest Drive, Corbin, KY 40701
Ph. 606.528.8776 Fax: 606.523.5457

2410 Greatstone Point, Lexington, KY 40504
Ph. 859.223.3318 Fax: 859.223.5875

1301 West 5th Street, London, KY 40741
Ph. 606.864.8110 Fax: 606.864.8471



www.cloydcpa.com



Cloyd & Associates, PSC
Certified Public Accountants

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2018 on our consideration of the Wood Creek Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Wood Creek Water District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
Certified Public Accountants
Corbin, Kentucky

March 31, 2018

WOOD CREEK WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Years ended December 31, 2017 and 2016

This discussion and analysis is intended to be an easily readable analysis of the Wood Creek Water District's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements and notes that follow. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS

- In 2017, the District's net position increased by \$539,108, or 3.20%, compared to an increase in 2016 of \$64,951 or 0.5%.
- In 2017, sales of water increased by \$417,447, or 8.10%. In 2016, sales increased by \$211,740, or 4.28%.
- Operating expenses decreased by \$15,865, or 0.20% in 2017 compared to a decrease of \$1,236,200, or 18.6% in 2016.
- Additions to capital assets in 2017 amounted to \$704,191. In 2016, additions to capital assets were \$550,117.
- Principal payments on long-term debt, excluding refunded debt principal payoffs were \$556,500 in 2017 and \$519,000 in 2016.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of the Management's Discussion and Analysis and the basic financial statements. The financial statements include notes that explain information included in the basic financial statements.

FINANCIAL STATEMENTS

The financial statements report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Net Position present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The financial statements also include a Statement of Cash Flows, which presents sources and uses of cash and changes in cash balances during the fiscal year.

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

**WOOD CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Years ended December 31, 2017 and 2016

NET POSITION

A summary of the District's Statement of Net Position as of December 31, 2017 and 2016 is presented below:

	<u>2017 Amount</u>	<u>2016 Amount</u>	<u>Net dollar Change</u>	<u>Net percentage Change</u>
Current and other assets	\$ 3,120,616	\$ 2,335,626	\$ 784,990	33.61%
Noncurrent assets	984,611	977,818	6,793	0.69%
Capital assets, net of accumulated depreciation	30,221,181	31,047,320	(826,139)	-2.66%
Total Assets	<u>34,326,408</u>	<u>34,360,764</u>	<u>(34,356)</u>	-0.10%
Deferred outflow of resources	753,523	756,446	(2,923)	-0.39%
Total Deferred Outflow of Resources	<u>753,523</u>	<u>756,446</u>	<u>(2,923)</u>	-0.39%
Current liabilities	1,091,144	1,093,674	(2,530)	-0.23%
Noncurrent liabilities	16,593,847	17,167,704	(573,857)	-3.34%
Total Liabilities	<u>17,684,991</u>	<u>18,261,378</u>	<u>(576,387)</u>	-3.16%
Deferred inflow of resources	97,244	97,244	-	N/A
Total Deferred Inflow of Resources	<u>97,244</u>	<u>97,244</u>	<u>-</u>	
Net investment in capital assets	16,634,217	16,910,821	(276,604)	-1.64%
Restricted net positions	957,708	932,204	25,504	2.74%
Unrestricted (deficit) net positions	(294,229)	(1,084,437)	790,208	-72.87%
Total Net Position	<u>\$ 17,297,696</u>	<u>\$ 16,758,588</u>	<u>\$ 539,108</u>	3.22%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

A summary of the District's Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2017 and 2016 is presented below:

	<u>2017 Amount</u>	<u>2016 Amount</u>	<u>Net dollar Change</u>	<u>Net percentage Change</u>
Operating revenue	\$ 6,518,734	\$ 6,072,320	\$ 446,414	7.35%
Nonoperating revenue	36,128	36,467	(339)	-0.93%
Total revenue	<u>6,554,862</u>	<u>6,108,787</u>	<u>446,075</u>	7.30%
Depreciation expense	1,204,800	1,180,789	24,011	2.03%
Other operating expense	4,239,370	4,227,292	12,078	0.29%
Nonoperating expense	571,584	635,755	(64,171)	-10.09%
Total expense	<u>6,015,754</u>	<u>6,043,836</u>	<u>(28,082)</u>	-0.46%
Changes in net position	539,108	64,951	474,157	730.02%
Net position, beginning	16,758,588	16,693,637	64,951	0.39%
Net position, ending	<u>\$ 17,297,696</u>	<u>\$ 16,758,588</u>	<u>\$ 539,108</u>	3.22%

**WOOD CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Years ended December 31, 2017 and 2016

As reported on the Statement of Revenues, Expenses, and Changes in Net Position, net position increased by \$539,108 for the year 2017 as compared to an increase of \$64,951 for the year 2016.

The operating revenue increased by \$446,414 or 7.30 % from the prior year amounts.

CAPITAL ASSETS

On December 31, 2017, the District's investment in capital assets, net of depreciation, totaled \$30,221,181, which is a decrease of \$826,139, or 1.99%, over the capital asset balance of \$31,047,320 at December 31, 2016. The decrease is due to depreciation of the fixed assets exceeding the amount of new fixed assets placed in service during the year.

LONG-TERM DEBT

As of December 31, 2017, the District had long-term debt of \$13,580,000 compared to \$14,136,500 at December 31, 2016, including current portion. During the year ended December 31, 2017, the District paid \$556,500 of principal payments on the long-term debt compared to \$519,000 in 2016.

CONSTRUCTION IN PROGRESS

As of December 31, 2017, the District had \$12,000 of construction in progress which relates to sewer line construction.

CONTACT INFORMATION

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning this report or request for additional information should be addressed to the Office Manager, Dewayne Lewis, at Wood Creek Water District, London, Kentucky, 40741, or by calling (606) 878-9420.

WOOD CREEK WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 1,127,437	\$ 601,446
Investments	51,250	51,250
Accounts receivable, less allowance for doubtful accounts	847,089	824,227
Unbilled accounts receivable	157,447	157,447
Inventories	932,532	696,397
Other current assets	<u>4,861</u>	<u>4,859</u>
Total current assets	<u>3,120,616</u>	<u>2,335,626</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>957,708</u>	<u>948,507</u>
Capital assets		
Nondepreciable capital assets		
Land and land structures	4,171,750	4,152,844
Construction in progress	<u>12,000</u>	<u>291,866</u>
Total nondepreciable capital assets	<u>4,183,750</u>	<u>4,444,710</u>
Depreciable capital assets		
Intangible	21,836	21,836
Source of supply and pumping	1,714,262	1,714,262
Water treatment equipment	16,474,338	16,474,338
Transmission and distribution	17,236,438	17,036,788
General plant	2,801,080	2,747,094
Collection plant	5,839,817	5,694,900
Pumping plant	<u>3,317,051</u>	<u>3,176,670</u>
	47,404,822	46,865,888
Accumulated depreciation	<u>(21,367,391)</u>	<u>(20,263,278)</u>
Total depreciable capital assets, net of depreciation	<u>26,037,431</u>	<u>26,602,610</u>
Total capital assets (net of depreciation)	<u>30,221,181</u>	<u>31,047,320</u>
Other assets		
Bond discount (net of accumulated amortization)	<u>26,903</u>	<u>29,311</u>
Total noncurrent assets	<u>31,205,792</u>	<u>32,025,138</u>
Total assets	<u>\$ 34,326,408</u>	<u>\$ 34,360,764</u>

WOOD CREEK WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2017 and 2016

DEFERRED OUTFLOWS OF RESOURCES	<u>2017</u>	<u>2016</u>
Deferred outflows from pensions	\$ 744,751	\$ 744,751
Deferred savings from refunding bonds	<u>8,772</u>	<u>11,695</u>
Total deferred outflows of resources	<u>753,523</u>	<u>756,446</u>
Total assets and deferred outflows of resources	<u>35,079,931</u>	<u>35,117,210</u>
 LIABILITIES		
Current liabilities		
Accounts payable	\$ 183,614	\$ 190,112
Accrued interest	276,299	285,485
Current portion of long-term debt	539,000	525,500
Other current liabilities	<u>92,231</u>	<u>92,577</u>
Total current liabilities	<u>1,091,144</u>	<u>1,093,674</u>
 Noncurrent liabilities		
Customer deposits	17,150	18,645
Unamortized premium on debt	33,867	36,229
Pension liability	3,501,830	3,501,830
Long-term debt	<u>13,041,000</u>	<u>13,611,000</u>
Total noncurrent liabilities	<u>16,593,847</u>	<u>17,167,704</u>
Total liabilities	<u>17,684,991</u>	<u>18,261,378</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions	<u>97,244</u>	<u>97,244</u>
Total deferred inflows of resources	<u>97,244</u>	<u>97,244</u>
 NET POSITION		
Net investment in capital assets	16,634,217	16,910,821
Restricted for:		
Debt service	938,657	923,992
Other purposes	19,051	24,515
Unrestricted (deficit)	<u>(294,229)</u>	<u>(1,100,739)</u>
Total net position	<u>17,297,696</u>	<u>16,758,589</u>
Total liabilities, deferred inflows, and net position	<u>\$ 35,079,931</u>	<u>\$ 35,117,211</u>

WOOD CREEK WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues		
Water sales	\$ 5,567,319	\$ 5,149,872
Sewer service	717,334	668,979
Penalties and service charges	145,966	129,400
Tap-on fees	85,615	121,469
Other	2,500	2,600
Total operating revenues	<u>6,518,734</u>	<u>6,072,320</u>
Operating expenses		
Purchased water and power	352,531	374,932
Water treatment	1,417,226	1,548,250
Transmission and distribution	1,123,816	951,161
Administration of customer accounts	371,389	312,195
Administration and general	531,507	440,502
Pension expense	-	203,944
Sewer maintenance and treatment	439,931	445,292
Amortization	2,970	2,970
Depreciation	1,204,800	1,180,789
Total operating expenses	<u>5,444,170</u>	<u>5,460,035</u>
Operating income (loss)	<u>1,074,564</u>	<u>612,285</u>
Nonoperating revenues (expenses)		
Interest income	3,828	3,820
Federal and state grants	15,555	29,038
Gain on disposition of equipment	16,745	3,609
Interest on long-term debt	(559,648)	(572,668)
Other expense	(11,936)	(11,133)
Total nonoperating revenues (expenses)	<u>(535,456)</u>	<u>(547,334)</u>
Change in net position	539,108	64,951
Net Position, January 1	<u>16,758,588</u>	<u>16,693,637</u>
Net Position, December 31	<u>\$ 17,297,696</u>	<u>\$ 16,758,588</u>

WOOD CREEK WATER DISTRICT
STATEMENT OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Receipts from customers	\$ 6,493,372	\$ 5,948,234
Receipts from other activities	2,500	2,600
Payments to employees	(1,798,868)	(1,905,763)
Payments to suppliers	<u>(2,691,194)</u>	<u>(2,137,510)</u>
Net cash used in operating activities	<u>2,005,810</u>	<u>1,907,561</u>
Cash flows from noncapital and related financing activities		
Federal, state, and local grants	<u>15,555</u>	<u>29,038</u>
Net cash provided by noncapital and related financing activities	<u>15,555</u>	<u>29,038</u>
Cash flows from capital and related activities		
Purchases of property, plant, and equipment	(378,662)	(550,118)
Proceeds from the sale of equipment	16,745	3,609
Principal payments on debt	(556,500)	(519,000)
Interest payments on debt	(559,648)	(572,668)
Miscellaneous nonoperating expense	<u>(11,936)</u>	<u>(11,133)</u>
Cash provided (used) in capital and related activities	<u>(1,490,001)</u>	<u>(1,649,310)</u>
Cash flows from investing activities		
Interest received on investments	<u>3,828</u>	<u>3,820</u>
Cash provided (used) in investing activities	<u>3,828</u>	<u>3,820</u>
Net increase in cash and cash equivalents	535,192	291,109
Cash and cash equivalents, January 1	<u>1,549,953</u>	<u>1,258,844</u>
Cash and cash equivalents, December 31	<u>\$ 2,085,145</u>	<u>\$ 1,549,953</u>
Reconciliation of change in net position to net cash used in operating activities		
Operating income/(loss)	1,074,564	612,285
Adjustments to reconcile change in net position to net cash used in operating activities:		
Depreciation	1,204,800	1,180,789
Amortization	2,970	2,970
Changes in assets and liabilities:		
(Increase) Decrease in customer and other accounts receivable	(22,862)	(119,798)
(Increase) Decrease in inventory	(236,135)	(1,690)
(Increase) Decrease in prepaid expense and other assets	(2)	2
Increase (Decrease) in accounts payable	(6,498)	13,545
Increase (Decrease) in pension expense	-	203,944
Increase (Decrease) in accrued expense	(9,186)	(9,078)
Increase (Decrease) in other current liabilities	(346)	27,097
Increase (Decrease) in customer deposits	<u>(1,495)</u>	<u>(2,505)</u>
Net cash provided by operating activities	<u>\$ 2,005,810</u>	<u>\$ 1,907,561</u>
Reconciliation of cash at end of year		
Cash and cash equivalents	\$ 1,127,437	\$ 601,446
Restricted cash and cash equivalents	<u>957,708</u>	<u>948,507</u>
Total cash at end of year	<u>\$ 2,085,145</u>	<u>\$ 1,549,953</u>

WOOD CREEK WATER DISTRICT NOTES TO THE FINANCIAL STATEMENT

Years ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Wood Creek Water District, of Laurel County, Kentucky (the District) was created in 1969 under Chapter 74 of the Kentucky Revised Statutes and is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. The District is governed by a three-person board of Commissioners, which is appointed by the Laurel County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

Wood Creek Water District is a rural water utility system whose purpose is to establish, develop, and operate a water supply and distribution system for its members and customers in Laurel County, Kentucky. The District also provides sewer services to a specific portion of the Wood Creek Lake watershed area. The District's primary source of revenue is from water sales and sewer services to its members and customers, including public bodies and local businesses in its service area.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. In addition, the District applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position display information about the District as a whole. These statements include all funds of the District. The statements distinguish between governmental and business-type activities. The District does not have any governmental activities.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The District considers all highly liquid investments (including restricted cash and investments), with maturities of 90 days or less to be cash equivalents. This includes bank certificates of deposit and demand checking accounts.

Investments

The District is authorized by state statute to invest in: 1) obligations of the United States and of its agencies and instrumentalities; 2) bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; 3) shares of any savings and loan insured by an agency of the government of the United States up to the amount so insured; 4) interest bearing deposits in nationally chartered or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in larger amounts provided such bank shall pledge, as security, obligations of the United States government, its agencies and instrumentalities.

The District's investments include certificates of deposits with maturity dates of three months or more. Certificates of deposits in excess of FDIC insurance are collateralized by securities held by the pledging bank.

The District also invests in mutual funds, which are recorded at their fair market value. Securities are traded on a national exchange and valued at the last reported sales price at current exchange rates and investments that do not have an established market are reported at an estimated fair value.

Accounts Receivable

Accounts receivable arise as services are rendered for which collections have not been realized and are carried net of a provision for doubtful accounts. The provision for doubtful accounts is estimated using a percentage of accounts more than 90 days past due. At December 31, 2017 and 2016, the provision for doubtful accounts was \$3,464 and \$3,464, respectively.

Unbilled Receivables

The District estimated unbilled revenues from water sales, on a pro rata basis, at the end of each fiscal year. The estimated amount is based on amounts billed during the following month of the close of the fiscal year.

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventories of materials and supplies are stated at historical cost. The carrying value is determined on a first-in, first-out basis.

Capital Assets

Capital assets include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, and equipment that have a useful life of more than one reporting period based on the District's capitalization policy. The cost of additions to the utility plant and major replacements of retired property is capitalized, and the cost of repairs, maintenance, and minor replacements are charged to expense. By District policy, capital assets are defined as assets with a cost of \$1,000 or more and an estimated useful life in excess of one year. Cost includes direct labor, outside services, materials and transportation employee fringe benefits, and overhead. Interest incurred during construction is capitalized.

The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from disposal is credited or charged in the non-operating section of the statements of revenues, expenses, and changes in net assets. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The range of useful lives of assets is as follows:

<u>Assets Classification</u>	<u>Range of Lives</u>
Intangible	40 years
Transmission and distribution mains	50 years
Structures and improvements	50 years
Pumping and water treatment equipment	25 years
Meters, hydrants and services	20 years
Other equipment	5-10 years

Accounts payable

Accounts payable represent expenses incurred in the current year to be paid in the subsequent year. The majority of the District's accounts payable are to vendors or for purchase of water.

Long-Term Debt

Long-term debt is recorded at face value. Issue costs relating to prepaid insurance, loan discounts, and loan premiums related to the issuance of debt are deferred and amortized over the term of the respective loans outstanding using the straight-line method.

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Vacation benefits are not accrued beyond any fiscal year. Sick leave benefits may be used to supplement an employee's retirement if the employee is at retirement age or has at least twenty-six years and six months' service. At December 31, 2017 and 2016, the District did not record any sick leave accrual and management feels that no sick leave benefits are currently payable.

Customer Deposits

The District collects and holds in escrow a \$60 deposit from customers to insure collection of its water charges. Interest at an annual rate of 1% is paid on these deposits.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net Investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets and any unamortized debt cost or premium.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

Deferred Inflows and Deferred Outflows of Resources

Deferred inflows and deferred outflows are recorded on the government-wide and proprietary financial statements. The deferred outflows of resources presented were primarily created by the prior refunding of revenue bonds and deferral of pension contributions. Deferred inflows were primarily created by actuarial determinations of net pension liability changes.

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (CERS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – RESTRICTED CASH

The District includes all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2017 and 2016 restricted cash amounted to \$957,708 and \$948,507, respectively. This includes restrictions for customer deposits of \$19,051 and \$24,515 and restrictions for debt service of \$938,657 and \$923,992, respectively.

NOTE 3 – INVESTMENTS – INTEREST RATE RISK

According to KRS 91A.060, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The District classifies only certificates of deposit as investments and does not consider interest rate risk to be significant.

NOTE 4 – CUSTODIAL CREDIT RISK - DEPOSITS

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, the District's bank balances were \$2,097,729 and \$1,598,239 respectively. In accordance with Kentucky Revised Statute (KRS) 91A.060, deposits are to be collateralized to the extent uninsured by FDIC. According to KRS 41.240(4), it shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The District's deposits were fully insured or collateralized with securities held by an agent of the District in the District's name at December 31, 2017 and 2016.

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 5 – INVESTMENTS

As of December 31, 2017 and 2016, the District had the following investments:

	<u>Rating</u>	<u>Fair Value 2017</u>	<u>Fair Value 2016</u>
Certificate of Deposit	Not Rated	<u>\$ 51,250</u>	<u>\$ 51,250</u>

The District deposits cash with banks for future debt service. The bank may choose to invest the deposit but assumes all risk.

Interest Rate Risk - Investments The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 6 – RECEIVABLES

At December 31, 2017 and 2016, customer and other accounts receivable are as follows:

	<u>2017</u>	<u>2016</u>
Due from customers	\$ 382,774	\$ 355,930
Due from related parties	430,705	449,825
Due from others	37,074	21,936
Provision for uncollectibles	<u>(3,464)</u>	<u>(3,464)</u>
	<u>\$ 847,089</u>	<u>\$ 824,227</u>

The above Accounts Receivable detail does not include unbilled receivables of \$157,447.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 and 2016 was as follows:

See Table on Next Page

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 7 – CAPITAL ASSETS (continued)

	<u>Balance</u> <u>December 31, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31, 2017</u>
Water Operations:				
Land and improvements	\$ 4,101,336	18,906	-	\$ 4,120,242
Intangible	21,836	-	-	21,836
Source of supply and pumping	1,714,262	-	-	1,714,262
Water treatment plant	16,474,338	-	-	16,474,338
Transmission and distribution plant	17,036,788	199,650	-	17,236,438
General plant	2,474,360	188,337	134,351	2,528,346
Total capital assets	41,822,920	406,893	134,351	42,095,462
Less: Accumulated depreciation				
Intangible	21,865	-	-	21,865
Source of supply and pumping	1,198,846	48,895	-	1,247,741
Water treatment plant	4,935,747	406,218	-	5,341,965
Transmission and distribution plant	7,716,291	351,143	-	8,067,434
General plant	1,908,642	103,646	100,686	1,911,602
Total accumulated depreciation	15,781,391	909,902	100,686	16,590,607
Net capital assets-water	26,041,529	(503,009)	33,665	25,504,855
Sewer Operations				
Land and improvements	51,508	-	-	51,508
General plant	272,734	-	-	272,734
Collection plant	5,694,900	144,917	-	5,839,817
Pumping plant	3,176,670	140,381	-	3,317,051
Construction in progress	291,866	12,000	291,866	12,000
Total capital assets	9,487,678	297,298	291,866	9,493,110
Less: Accumulated depreciation				
General plant	265,166	1,850	-	267,016
Collection plant	1,892,945	207,104	-	2,100,049
Pumping plant	2,323,776	85,943	-	2,409,719
Construction in progress	-	-	-	-
Total accumulated depreciation	4,481,887	294,897	-	4,776,784
Net capital assets sewer	5,005,791	2,401	291,866	4,716,326
Net capital assets-total	\$ 31,047,320	\$ (500,608)	\$ 325,531.00	\$ 30,221,181

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 7 – CAPITAL ASSETS (continued)

	<u>Balance</u> <u>December 31, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31, 2016</u>
Water Operations:				
Land and improvements	\$ 4,096,336	5,000	-	\$ 4,101,336
Intangible	21,836	-	-	21,836
Source of supply and pumping	1,714,262	-	-	1,714,262
Water treatment plant	16,474,338	-	-	16,474,338
Transmission and distribution plant	16,912,494	124,294	-	17,036,788
General plant	2,355,927	181,134	62,701	2,474,360
Total capital assets	41,575,193	310,428	62,701	41,822,920
Less: Accumulated depreciation				
Intangible	21,836	29	-	21,865
Source of supply and pumping	1,149,951	48,895	-	1,198,846
Water treatment plant	4,529,507	406,240	-	4,935,747
Transmission and distribution plant	7,368,007	348,284	-	7,716,291
General plant	1,885,288	86,055	62,701	1,908,642
Total accumulated depreciation	14,954,589	889,503	62,701	15,781,391
Net capital assets-w ater	26,620,604	(579,075)	-	26,041,529
Sewer Operations				
	<u>December 31, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2016</u>
Land and improvements	51,508	-	-	51,508
General plant	272,734	-	-	272,734
Collection plant	5,595,574	99,326	-	5,694,900
Pumping plant	3,036,307	140,363	-	3,176,670
Construction in progress	291,866	-	-	291,866
Total capital assets	9,247,989	239,689	-	9,487,678
Less: Accumulated depreciation				
General plant	249,977	15,189	-	265,166
Collection plant	1,704,442	188,503	-	1,892,945
Pumping plant	2,236,182	87,594	-	2,323,776
Construction in progress	-	-	-	-
Total accumulated depreciation	4,190,601	291,286	-	4,481,887
Net capital assets sewer	5,057,388	(51,597)	-	5,005,791
Net capital assets-total	\$ 31,677,992	\$ (630,672)	\$ -	\$ 31,047,320

NOTE 8 – LONG-TERM DEBT

The District's long-term debt consists of bonds payable to Rural Development (RD) and Kentucky Rural Water Finance Corporation (KRWFC), which were obtained for various acquisitions of plant and equipment. Additionally, long-term debt also included lease purchase agreements for various equipment purchases. The bonds mature annually in varying series over the period 2012 to 2045. A summary of the bonds is presented below:

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 8 – LONG-TERM DEBT – (continued)

RURAL DEVELOPMENT								
<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>12/31/16 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/17 Outstanding Balance</u>	<u>Due Within One Year</u>
91-13	7,250,000	1/1/2045	4.25%	\$ 6,415,000	\$ -	\$ 114,000	\$ 6,301,000	\$ 119,000
91-16	725,000	1/1/2045	4.25%	639,500	-	11,500	628,000	12,000
Total RD Bonds Payable				\$ 7,054,500	\$ -	\$ 125,500	\$ 6,929,000	\$ 131,000
KRWFC								
2005B	3,594,000	7/1/2031	4.00%-4.50%	2,569,000	-	126,000	2,443,000	131,000
2007A	2,086,000	7/1/2036	4.05%-4.425%	1,673,000	-	55,000	1,618,000	57,000
2015B	2,780,000	7/1/2038	2.25%-3.50%	2,590,000	-	175,000	2,415,000	180,000
Total KRWFC Bonds Payable				\$ 6,832,000	\$ -	\$ 356,000	\$ 6,476,000	\$ 368,000
OPEN MARKET								
1998	\$ 665,000	1/1/2022	4.00%	\$ 250,000	\$ -	\$ 75,000	\$ 175,000	40,000
Total Open Market Bonds Payable				\$ 250,000	\$ -	\$ 75,000	\$ 175,000	\$ 40,000
Total Outstanding Debt				\$ 14,136,500	\$ -	\$ 556,500	\$ 13,580,000	

Future bond principal and interest payment amounts are as follows:

See Table on Next Page

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 8 – LONG-TERM DEBT – (continued)

YEAR	LOCAL		TOTAL
	PRINCIPAL	INTEREST	
2018	499,000	549,899	1,048,899
2019	555,500	535,663	1,091,163
2020	572,000	515,405	1,087,405
2021	596,500	494,222	1,090,722
2022	580,500	471,638	1,052,138
2023	524,000	449,338	973,338
2024	545,500	427,772	973,272
2025	562,000	405,318	967,318
2026	586,000	381,932	967,932
2027	589,500	357,728	947,228
2028	600,500	333,018	933,518
2029	637,000	307,252	944,252
2030	596,000	281,166	877,166
2031	621,000	255,262	876,262
2032	409,500	233,149	642,649
2033	423,500	215,838	639,338
2034	434,500	197,934	632,434
2035	461,500	179,199	640,699
2036	472,500	159,592	632,092
2037	365,500	141,866	507,366
2038	383,000	126,728	509,728
2039	322,000	111,975	433,975
2040	335,000	97,923	432,923
2041	350,500	83,304	433,804
2042	366,000	68,010	434,010
2043	381,000	52,038	433,038
2044	397,500	35,412	432,912
2045	413,000	18,065	431,065
	<u>\$ 13,580,000</u>	<u>\$ 7,486,645</u>	<u>\$ 21,066,645</u>

NOTE 9 – SERVICES PROVIDED TO OTHER WATER DISTRICTS

Wood Creek Water District sells water for resale and provides maintenance, construction, and office services to West Laurel Water Association, Incorporated and East Laurel Water District. The actual costs of maintenance and construction services are accumulated in specific expense accounts and charges for services are netted against such expense accounts. Wood Creek Water District bills the related water companies for the materials.

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 9 – SERVICES PROVIDED TO OTHER WATER DISTRICTS – (continued)

Accounts receivable from East Laurel Water District and West Laurel Water Association, Incorporated are summarized below:

	<u>2017</u>	<u>2016</u>
<u>East Laurel Water District</u>		
Accounts receivable	\$ 202,551	\$ 222,968
Accounts receivable - wastewater	57,503	56,516
	<u>\$ 260,054</u>	<u>\$ 279,484</u>
<u>West Laurel Water Association, Incorporated</u>		
Accounts receivable	\$ 168,812	\$ 167,861
Accounts receivable - wastewater	1,839	2,479
	<u>\$ 170,651</u>	<u>\$ 170,340</u>

The following is a summary of amounts paid to Wood Creek Water District for water and services:

	<u>2017</u>	<u>2016</u>
<u>East Laurel Water District</u>		
Purchased water	\$ 1,533,720	\$ 1,421,731
Materials, labor, and other	903,709	833,360
	<u>\$ 2,437,429</u>	<u>\$ 2,255,091</u>
<u>West Laurel Water Association, Incorporated</u>		
Purchased water	\$ 1,135,586	\$ 1,088,851
Materials, labor, and other	835,814	658,812
	<u>\$ 1,971,400</u>	<u>\$ 1,747,662</u>

NOTE 10 – RETIREMENT PLAN

The District's full-time employees, or employees who work an average of 100 hours per month, are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers' retirement system created and operating under Kentucky Law.

General information about the County Employees Retirement System Non-Hazardous (CERS)

Plan Description – The County Employees Retirement System covers substantially all regular full-time employees of the District. CERS is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained from <http://kyret.ky.gov/>.

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 10 – RETIREMENT PLAN – (continued)

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested 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 Or at least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2009 – 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

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.

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

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

Funding Policy – Funding for the plan is provided through payroll withholdings and matching District contributions. The District contributes 19.18% of the employee's total compensation subject to contribution.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ 3,501,830
--	--------------

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 10 – RETIREMENT PLAN – (continued)

The net pension liability for the plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 0.07112%.

For the year ended December 31, 2017, the District recognized no pension expense related to CERS. Please see Note 11 for discussion of this matter. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 15,288	\$ -
Changes in assumptions	185,508	-
Net difference between projected and actual earnings on pension plan investments	329,208	-
Changes in proportion and differences between District contributions and proportionate share of contributions	40,860	97,244
District contributions subsequent to the measurement date	<u>173,887</u>	<u>-</u>
Total	<u>\$ 744,751</u>	<u>\$ 97,244</u>

The \$173,887 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date were recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 174,398
2019	\$ 109,250
2020	\$ 116,823
2021	<u>\$ 73,149</u>
	<u>\$ 473,620</u>

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 10 – RETIREMENT PLAN – (continued)

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

	<u>CERS</u>
Inflation	3.25%
Projected salary increases	4.00%
Investment rate of return, net of investment expense & inflation	7.50%

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	\$ 4,363,657	\$ 3,501,830	\$ 2,762,789

Pension plan fiduciary net position — Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

The District's total payroll subject to CERS for the years ended December 31, 2017, 2016, and 2015 was \$1,831,282, \$1,746,491 and \$1,743,561 respectively. The District's matching contributions to CERS for the years ended December 31, 2017, 2016, and 2015 was \$346,747, \$316,277, and \$302,501 respectively.

**WOOD CREEK WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2017 and 2016

NOTE 11 – CHANGE OF ACCOUNTING ESTIMATE REGARDING PENSION LIABILITY

For the year ended December 31, 2017, the District decided to use the June 30, 2016 as the measurement date of the net pension liability, deferred outflows related to pensions, and deferred inflows related to pensions. This is the same measurement date utilized for the December 31, 2016 audit period. The reason for this change is due to the annual reporting due dates of their state agency regulator. It was also done to obtain consistency with other utility districts across the state of Kentucky. Per standards, the District utilized the most recent measurement as provided by the Kentucky Retirement System, which is the measurement of June 30, 2016.

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. The insurance coverage is acquired through Wood Creek Water District which includes coverage for Wood Creek Water District, East Laurel Water District, and West Laurel Water Association, Incorporated. The District pays for and is entitled to its respective share of coverage. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

NOTE 13 – SUBSEQUENT EVENTS

We evaluated events and transactions that occurred after the balance sheet date as potential subsequent events. We performed this evaluation through March 31, 2018, the date on which the financial statements were available to be issued.

No events have occurred subsequent to the date of the financial statements that would require adjustment to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**WOOD CREEK WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Years ended December 31, 2017 and 2016

	District's proportion of net pension liability (asset)	District's proportionate share of the net pension liability (asset)	District's covered-employee payroll	District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.08%	\$ 3,501,830	\$ 1,746,491	200.51%	59.97%
2016	0.08%	\$ 3,501,830	\$ 1,746,491	200.51%	59.97%
2015	0.08%	\$ 3,254,156	\$ 1,743,561	186.64%	66.80%

* The amounts presented for each fiscal year were determined as of 6/30.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

WOOD CREEK WATER DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 COUNTY EMPLOYEES RETIREMENT SYSTEM

Years ended December 31, 2017 and 2016

	Contractually required contribution	Contributions in relation to contractually required contribution	Contribution deficiency (excess)	District's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2017	\$ 317,211	\$ 317,211	\$ -	\$ 1,746,491	18.16%
2016	\$ 317,211	\$ 317,211	\$ -	\$ 1,746,491	18.16%
2015	\$ 302,501	\$ 302,501	\$ -	\$ 1,743,561	17.35%

* The amounts presented for each fiscal year were determined as of 6/30.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

**WOOD CREEK WATER DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CERS**

Years ended December 31, 2017 and 2016

NOTE 1 – CHANGES IN ASSUMPTIONS

There were no changes of assumptions for the County Employees Retirement Program.

NOTE 2 – METHOD AND ASSUMPTIONS USED IN CALCUATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2015 and 2016, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Period	5-year smoothed market
Inflation	3.25%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.50%, net of pension investment expense, including inflation

NOTE 3 – CHANGES IN BENEFITS

There were no changes of benefit terms for CERS.

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENT OF NET POSITION - WATER FUND
December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 1,027,917	\$ 538,786
Investments	51,250	51,250
Accounts receivable, less allowance for doubtful accounts	653,266	642,532
Unbilled accounts receivable	157,447	157,447
Inventories	662,367	643,279
Due from other funds	322,533	331,105
Other current assets	4,861	4,859
Total current assets	<u>2,879,641</u>	<u>2,369,258</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>957,708</u>	<u>948,507</u>
Capital Assets		
Nondepreciable capital assets		
Land and land structures	<u>4,120,242</u>	<u>4,101,336</u>
Total nondepreciable capital assets	<u>4,120,242</u>	<u>4,101,336</u>
Depreciable Capital Assets		
Intangible	21,836	21,836
Source of supply and pumping	1,714,262	1,714,262
Water treatment equipment	16,474,338	16,474,338
Transmission and distribution	17,236,438	17,036,788
General plant	<u>2,528,346</u>	<u>2,474,360</u>
	37,975,220	37,721,584
Accumulated depreciation	<u>(16,590,607)</u>	<u>(15,781,391)</u>
Total depreciable capital assets, net of depreciation	<u>21,384,613</u>	<u>21,940,193</u>
Total capital assets (net of depreciation)	<u>25,504,855</u>	<u>26,041,529</u>
Other assets		
Bond discount (net of accumulated amortization)	<u>26,903</u>	<u>29,311</u>
Total noncurrent assets	<u>26,489,466</u>	<u>27,019,347</u>
Total assets	<u>\$ 29,369,107</u>	<u>\$ 29,388,605</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENT OF NET POSITION - WATER FUND
December 31, 2017 and 2016

DEFERRED OUTFLOWS OF RESOURCES	<u>2017</u>	<u>2016</u>
Deferrals from pensions	\$ 744,751	\$ 744,751
Deferred savings from refunding bonds	<u>8,772</u>	<u>11,695</u>
Total deferred savings from refunding bonds	<u>753,523</u>	<u>756,446</u>
Total assets and deferred outflows of resources	<u>\$ 30,122,630</u>	<u>\$ 30,145,051</u>
 LIABILITIES		
Current liabilities		
Accounts payable	144,281	137,706
Accrued interest	276,299	285,485
Due to other funds	62,621	61,323
Current portion of long-term debt	539,000	525,500
Other current liabilities	<u>92,231</u>	<u>92,577</u>
Total current liabilities	<u>1,114,432</u>	<u>1,102,591</u>
 Noncurrent liabilities		
Customer deposits	17,150	18,645
Unamortized premium on debt	33,867	36,229
Net pension liability	3,501,830	3,501,830
Long-term debt	<u>13,041,000</u>	<u>13,611,000</u>
Total noncurrent liabilities	<u>16,593,847</u>	<u>17,167,704</u>
Total liabilities	<u>17,708,279</u>	<u>18,270,295</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions	<u>97,244</u>	<u>97,244</u>
Total deferred inflows of resources	<u>97,244</u>	<u>97,244</u>
 NET POSITION		
Net investment in capital assets	11,917,891	11,905,029
Restricted for:		
Debt service	938,657	923,992
Other purposes	19,051	24,515
Unrestricted (deficit)	<u>(558,492)</u>	<u>(1,076,024)</u>
Total net position	<u>12,317,107</u>	<u>11,777,512</u>
Total liabilities, deferred inflows and net position	<u>\$ 30,122,630</u>	<u>\$ 30,145,051</u>

The accompanying notes are an integral part of the financial statements

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
WATER FUND

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues		
Water sales	\$ 5,567,319	\$ 5,149,872
Penalties and service charges	132,299	116,623
Tap-on fees	40,890	37,352
Other operating income	<u>2,500</u>	<u>2,600</u>
Total operating revenues	<u>5,743,008</u>	<u>5,306,447</u>
Operating expenses		
Purchased water and power	328,593	346,119
Water treatment	1,417,226	1,548,250
Transmission and distribution	1,123,816	951,161
Administration of customer accounts	371,389	312,195
Administration and general	514,021	424,441
Pension expense	-	203,944
Amortization	2,970	2,970
Depreciation	<u>909,902</u>	<u>889,503</u>
Total operating expenses	<u>4,667,917</u>	<u>4,678,583</u>
Operating income (loss)	<u>1,075,091</u>	<u>627,864</u>
Nonoperating revenues (expenses) -		
Interest income	3,788	3,794
Grant income	15,555	29,038
Gain on disposal of equipment	16,745	3,609
Interest on long-term debt	(559,648)	(572,668)
Miscellaneous	<u>(11,936)</u>	<u>(11,133)</u>
Total nonoperating revenues (expenses)	<u>(535,496)</u>	<u>(547,360)</u>
Change in net position	539,595	80,504
Net Position, January 1	<u>11,777,512</u>	<u>11,697,008</u>
Net Position, December 31	<u>\$ 12,317,107</u>	<u>\$ 11,777,512</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENT OF CASH FLOWS - WATER FUND
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Receipts from customers	\$ 5,729,774	\$ 5,211,026
Receipts from other activities	2,500	2,600
Payments to employees	(1,781,382)	(1,889,702)
Payments to suppliers	<u>(1,997,205)</u>	<u>(1,684,196)</u>
Net cash used in operating activities	<u>1,953,687</u>	<u>1,639,728</u>
Cash flows from noncapital and related financing activities		
Federal, state, and local grants	<u>15,555</u>	<u>29,038</u>
Net cash provided by noncapital and related financing activities	<u>15,555</u>	<u>29,038</u>
Cash flows from capital and related activities		
Purchases of property, plant, and equipment, net	(373,229)	(310,428)
Proceeds from the sale of equipment	16,745	3,609
Loans to sewer funds	1,298	(10,839)
Payments on loans from sewer fund	8,572	10,850
Principal payments on debt	(556,500)	(519,000)
Interest payments on debt	(559,648)	(572,668)
Miscellaneous nonoperating expense	<u>(11,936)</u>	<u>(11,133)</u>
Cash provided (used) in capital and related activities	<u>(1,474,698)</u>	<u>(1,409,609)</u>
Cash flows from investing activities		
Interest received on investments	<u>3,788</u>	<u>3,794</u>
Cash provided (used) in investing activities	<u>3,788</u>	<u>3,794</u>
Net increase in cash and cash equivalents	498,332	262,951
Cash and cash equivalents as of January 1	1,487,293	1,224,342
Cash and cash equivalents as of December 31	<u>\$ 1,985,625</u>	<u>\$ 1,487,293</u>
Reconciliation of change in net position to net cash used in operating activities		
Operating income/(loss)	\$ 1,075,091	\$ 627,864
Adjustments to reconcile change in net position to net cash used in operating activities:		
Depreciation	909,902	889,503
Amortization	2,970	2,970
Changes in assets and liabilities:		
(Increase) Decrease in customer and other accounts receivable	(10,734)	(91,133)
(Increase) Decrease in inventory	(19,088)	(1,690)
(Increase) Decrease in prepaid expense and other assets	(2)	2
Increase (Decrease) in accounts payable	6,575	(7,246)
Net change in pension expense	-	203,944
Increase (Decrease) in accrued expense	(9,186)	(9,078)
Increase (Decrease) in current liabilities	(346)	27,097
Increase (Decrease) in customer deposits	<u>(1,495)</u>	<u>(2,505)</u>
Net cash provided by operating activities	<u>\$ 1,953,687</u>	<u>\$ 1,639,728</u>

**WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENT OF CASH FLOWS - WATER FUND
For the years ended December 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Reconciliation of cash at end of year		
Cash and cash equivalents	\$ 1,027,917	\$ 538,786
Restricted cash and cash equivalents	<u>957,708</u>	<u>948,507</u>
Total cash at end of year	<u>\$ 1,985,625</u>	<u>\$ 1,487,293</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENTS OF NET POSITION - SEWER FUND
December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 99,520	\$ 62,660
Accounts receivable, less allowance for doubtful accounts	193,823	181,695
Inventories	270,165	53,118
Due from other funds	<u>62,621</u>	<u>61,323</u>
Total current assets	<u>626,129</u>	<u>358,796</u>
Capital Assets		
Nondepreciable capital assets		
Land and land structures	51,508	51,508
Construction in progress	<u>12,000</u>	<u>291,866</u>
Total nondepreciable capital assets	<u>63,508</u>	<u>343,374</u>
Depreciable Capital Assets		
General plant	272,734	272,734
Collection plant	5,839,817	5,694,900
Pumping plant	<u>3,317,051</u>	<u>3,176,670</u>
	9,429,602	9,144,304
Accumulated depreciation	<u>(4,776,784)</u>	<u>(4,481,887)</u>
Total depreciable capital assets, net of depreciation	<u>4,652,818</u>	<u>4,662,417</u>
Total capital assets (net of depreciation)	<u>4,716,326</u>	<u>5,005,791</u>
Total noncurrent assets	<u>4,716,326</u>	<u>5,005,791</u>
Total assets	<u>\$ 5,342,455</u>	<u>\$ 5,364,587</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 39,333	\$ 52,406
Current portion of long-term debt	-	-
Due to other funds	<u>322,533</u>	<u>331,105</u>
Total current liabilities	<u>361,866</u>	<u>383,511</u>
Noncurrent liabilities		
Total liabilities	<u>361,866</u>	<u>383,511</u>
NET POSITION		
Net investment in capital assets	4,716,326	5,005,791
Unrestricted (deficit)	<u>264,263</u>	<u>(24,715)</u>
Total net position	<u>\$ 4,980,589</u>	<u>\$ 4,981,076</u>

The accompanying notes are an integral part of the financial statements

**WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
SEWER FUND**

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues		
Sewer services	\$ 717,334	\$ 668,979
Penalties and service charges	13,667	12,777
Tap on fees	44,725	84,117
Other operating income	-	-
Total operating revenues	<u>775,726</u>	<u>765,873</u>
Operating expenses		
Purchased water and power	23,938	28,813
Administration and general	17,486	16,061
Sewer maintenance and treatment	439,931	445,292
Depreciation	<u>294,898</u>	<u>291,286</u>
Total operating expenses	<u>776,253</u>	<u>781,452</u>
Operating income (loss)	<u>(527)</u>	<u>(15,579)</u>
Nonoperating revenues (expenses)		
Interest income	40	26
Federal and state grants	-	-
Local grants	-	-
Interest on long-term debt	-	-
Miscellaneous	-	-
Total nonoperating revenues (expenses)	<u>40</u>	<u>26</u>
Change in net position	(487)	(15,553)
Net Position, January 1	<u>4,981,076</u>	<u>4,996,629</u>
Net Position, December 31	<u>\$ 4,980,589</u>	<u>\$ 4,981,076</u>

WOOD CREEK WATER DISTRICT
DEPARTMENTAL STATEMENT OF CASH FLOWS - SEWER FUND
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Receipts from customers	\$ 763,598	\$ 737,208
Receipts from other activities	-	-
Payments to employees	(17,486)	(16,061)
Payments to suppliers	<u>(693,989)</u>	<u>(453,314)</u>
Net cash used in operating activities	<u>52,123</u>	<u>267,833</u>
Cash flows from noncapital and related financing activities		
Federal, state, and local grants	<u>-</u>	<u>-</u>
Net cash provided by noncapital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from capital and related activities		
Purchases of property, plant, and equipment	(5,433)	(239,690)
Principal payments on debt	-	-
Payments received from loans to water fund	(8,572)	10,839
Proceeds received on loan from water fund	(1,298)	(10,850)
Other activities	-	-
Interest on debt	<u>-</u>	<u>-</u>
Cash provided (used) in capital and related activities	<u>(15,303)</u>	<u>(239,701)</u>
Cash flows from investing activities		
Interest received on investments	<u>40</u>	<u>26</u>
Cash provided (used) in investing activities	<u>40</u>	<u>26</u>
Net increase in cash and cash equivalents	36,860	28,158
Cash and cash equivalents as of January 1	<u>62,660</u>	<u>34,502</u>
Cash and cash equivalents as of December 31	<u>\$ 99,520</u>	<u>\$ 62,660</u>
Reconciliation of change in net position to net cash used in operating activities		
Operating income/(loss)	\$ (527)	\$ (15,579)
Adjustments to reconcile change in net position to net cash used in operating activities:		
Depreciation	294,898	291,286
Changes in assets and liabilities:		
(Increase) Decrease in customer and other accounts receivable	(12,128)	(28,665)
(Increase) Decrease in inventory	(217,047)	-
Increase (Decrease) in accounts payable	(13,073)	20,791
Increase (Decrease) in other payables	<u>-</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 52,123</u>	<u>\$ 267,833</u>



Cloyd & Associates, PSC
Certified Public Accountants

**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
Wood Creek Water District
London, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities of Wood Creek 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 Wood Creek Water District's basic financial statements, and have issued our report thereon dated March 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wood Creek 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wood Creek Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Wood Creek 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.





Cloyd & Associates, PSC
Certified Public Accountants

Compliance and Other Matters

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

Purpose of this Report

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

Cloyd & Associates, PSC

Cloyd & Associates, PSC
Corbin, Kentucky
March 31, 2018

