

**HENDERSON COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS**

Years Ended December 31, 2017 and 2016

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**HENDERSON COUNTY WATER DISTRICT**  
Management's Discussion and Analysis  
Years Ended December 31, 2017 and 2016

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The Henderson County Water District provides water services for the residents of Henderson County and Webster County Kentucky who live outside the incorporated limits of the City of Henderson, Kentucky. The following narrative provides an overview of the financial performance of the Henderson County Water District for the years ended December 31, 2017 and 2016.

**Overview of the Financial Statements:**

This financial report consists of four parts: 1) Management's Discussion and Analysis, 2) Financial Statements, 3) Required Supplemental Information, and 4) Supplemental Information. Included in the financial statements are notes which provide additional detail supporting amounts reported therein. The financial statements of the Henderson County Water District report information using accounting principles similar to those of private sector companies.

The statement of net position, the successor to the balance sheet, includes all of the Henderson County Water District's assets and liabilities and provides information about their nature. It also provides a foundation for evaluating the financial strength of the District.

All of the revenues and expenses are accounted for on the statement of revenues, expenses, and changes in net position. This statement measures the results of the District's operations over the past year. It is used by management and others to evaluate whether the District was successful in recovering all of its costs through charges for sale of water and generated a profit.

The last statement is the statement of cash flows. This statement provides information regarding the District's cash receipts, payments, investing (capital expenditures), and financing activities. The sources and uses of cash are summarized in this report which also reconciles the changes in cash balances from the beginning of the year to the end.

**Financial Highlights:**

The Henderson County Water District's total assets increased by \$417,308 from \$15,978,207 in 2016 to \$16,395,515 in 2017, primarily due to increases in cash and cash equivalents and investments.

Operating revenues for 2017 increased by \$97,237, or 3%, from \$2,932,428 in 2016 to \$3,029,665 in 2017, primarily due to a increase in water consumption and revenue.

Operating expenses decreased by \$19,290, or 1%, from \$2,500,658 in 2016 to \$2,481,368 in 2017, primarily attributable to decreases in maintenance of systems and water purchased.

Operating income increased by \$116,527, or 27%, from \$431,770 in 2016 to \$548,297 in 2017, primarily due to decreased costs. Less water was purchased due to decreases in leaks and flushes and less was also spent on maintenance in the current year.

**Condensed Financial Information:**

A summary of condensed financial information is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Change</u>	<u>Percentage</u>
Current assets	\$ 1,933,165	\$ 1,798,996	\$ 134,169	7%
Restricted assets	927,799	742,740	185,059	25%
Capital assets	13,151,201	13,165,251	(14,050)	0%
Deferred outflows of resources	383,350	271,220	112,130	41%
Total assets and deferred outflows	<u>\$ 16,395,515</u>	<u>\$ 15,978,207</u>	<u>\$ 417,308</u>	<u>3%</u>
Current liabilities	\$ 665,037	\$ 555,877	109,160	20%
Long-term liabilities	5,745,183	5,913,361	(168,178)	-3%
Deferred inflows of resources	4,606	7,656	(3,050)	-40%
Total liabilities and deferred inflows	<u>6,414,826</u>	<u>6,476,894</u>	<u>(62,068)</u>	<u>12%</u>
Net position				
Invested in capital assets	8,042,493	7,727,750	314,743	4%
Restricted - debt service	927,799	742,740	185,059	25%
Unrestricted	1,010,397	1,030,823	(20,426)	-2%
Total net position	<u>9,980,689</u>	<u>9,501,313</u>	<u>479,376</u>	<u>5%</u>
Total liabilities and net position	<u>\$ 16,395,515</u>	<u>\$ 15,978,207</u>	<u>\$ 417,308</u>	<u>3%</u>

Total net position increased by \$479,376. This is due to the increase of investments and the decrease in outstanding bonds payable, as well as an increase in contributed capital.

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Change</u>	<u>Percentage</u>
Operating revenues	\$ 3,029,665	\$ 2,932,428	\$ 97,237	3%
Operating expenses	2,481,368	2,500,658	(19,290)	-1%
Operating income	<u>548,297</u>	<u>431,770</u>	<u>116,527</u>	<u>27%</u>
Non-operating revenues, net	(152,321)	(242,791)	90,470	-37%
Capital contributions	<u>83,400</u>	<u>21,672</u>	<u>61,728</u>	<u>285%</u>
Change in net position	<u>\$ 479,376</u>	<u>\$ 210,651</u>	<u>\$ 268,725</u>	<u>-128%</u>

Operating revenues increased by \$97,237 due to an increase in water revenue. Operating expenses decreased by \$19,290 primarily due to a decrease in water purchased and decrease in maintenance of the systems.

**Statement of Cash Flows:**

The following is a summary of cash flow activity for the fiscal years ended December 31, 2017 and 2016:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Change</u>	<u>Percentage</u>
Net cash provided (used) by:				
Operating activities	\$ 1,069,421	\$ 809,163	\$ 260,258	32%
Non-capital financing	(7,107)	(3,450)	(3,657)	106%
Capital and related financing	(798,019)	(953,111)	155,092	-16%
Investing activities	(32,534)	3,984	(36,518)	-917%
Net change in cash and cash equivalents	<u>\$ 231,761</u>	<u>\$ (143,414)</u>	<u>\$ 375,175</u>	<u>-262%</u>

Cash flows from operating activities were up by \$260,258 due primarily to decreased expenses such as labor, maintenance, and water purchased, and an increase in water revenue. Cash used by capital and related financing activities decreased by \$155,092 due to less net debt principal payments in the current year. Cash flows from investing activities decreased by \$36,518 as a result of funds transferred for the depreciation reserve CD's.

**Capital Assets:**

The vast majority of the assets of the Henderson County Water District are invested in the system infrastructure, similar to most utility operations. To protect this investment, the District is diligent in continually monitoring the condition of the system and performing maintenance to ensure it remains in a state of good repair. Management monitors its financial performance regularly to ensure a reasonable return on investment is received so that funds are available to provide for capital expenditures necessary to meet these objectives. The District expended \$387,766 on capital assets during 2017, and \$355,036 during 2016.

**Long-term Debt:**

As of December 31, 2017, the Henderson County Water District has \$4,745,110 in long-term debt outstanding, consisting of an Old National Bank Loan in the amount of \$256,820, Revenue Bond Series 2013 and 2013A in the amount of \$1,918,000, and Revenue Bond Series 2016 in the amount of \$2,570,290. Revenues of the District are pledged to secure these obligations.

**Economic Factors:**

Water sales for the fiscal year ending December 31, 2017 are estimated by management to remain at relatively similar levels of previous years, increasing only to pass through the annual increases required due to rising costs of water.

**Contact Information:**

The financial statements are deigned to provide our citizens, customers, and creditors with a general overview of the Henderson County Water District's results of operations. Additional information can be obtained by contacting Mr. Pete Conrad, Superintendent of the Henderson County Water District at 655 South Main Street, P.O. Box 655, Henderson, Kentucky 42420, or telephonically at 270-826-9802.



## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Henderson County Water District  
Henderson, Kentucky 42420

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Henderson County Water District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Henderson 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 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 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 opinions.

### ***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 Henderson County Water District, as of December 31, 2017, and the respective changes in financial position, and cash flows thereof for the year 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 1-3, the schedule of the District's proportionate share of net pension liability on page 22, and the schedule of the District's contributions to Kentucky Retirement System on page 23 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Henderson County Water District's basic financial statements. The Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual, and the Schedule of System Maintenance, Customer Accounts and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual, and the Schedule of System Maintenance, Customer Accounts and Administrative Expenses 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 Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual, and the Schedule of System Maintenance, Customer Accounts and Administrative Expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018, on our consideration of the Henderson 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Henderson County Water District's internal control over financial reporting and compliance.

*Kemper CPA Group LLP*

Kemper CPA Group LLP  
Certified Public Accountants and Consultants

Henderson, Kentucky  
March 5, 2018

**HENDERSON COUNTY WATER DISTRICT**

Statements of Net Position  
December 31, 2017 and 2016

	2017	2016
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 944,551	\$ 772,315
Investments, at cost	514,636	582,422
Receivables, net	354,642	336,234
Interest receivable	4,520	4,520
Inventories	86,487	75,044
Prepaid expenses	28,329	28,461
Total current assets	<u>1,933,165</u>	<u>1,798,996</u>
Utility, plant and equipment	<u>13,151,201</u>	<u>13,165,251</u>
Other non-current assets:		
Restricted cash and cash equivalents	505,265	445,740
Restricted investments, at cost	422,534	297,000
Total other non-current assets	<u>927,799</u>	<u>742,740</u>
Total assets	<u>16,012,165</u>	<u>15,706,987</u>
Deferred outflows of resources	<u>383,350</u>	<u>271,220</u>
Total assets and deferred outflows	<u>16,395,515</u>	<u>15,978,207</u>
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable	181,516	102,781
Interest payable	83,540	91,686
Other liabilities	36,383	39,851
Bonds and notes payable, net	363,598	321,559
Total current liabilities	<u>665,037</u>	<u>555,877</u>
Non-current liabilities:		
Customer security deposits	91,140	84,033
Net pension liability	908,933	713,386
Bonds and notes payable, net	4,745,110	5,115,942
Total non-current liabilities	<u>5,745,183</u>	<u>5,913,361</u>
Total liabilities	<u>6,410,220</u>	<u>6,469,238</u>
Deferred inflows of resources	<u>4,606</u>	<u>7,656</u>
<b><u>NET POSITION</u></b>		
Invested in capital assets, net of related debt	8,042,493	7,727,750
Restricted for debt service	927,799	742,740
Unrestricted	1,010,397	1,030,823
Total net position	<u>\$ 9,980,689</u>	<u>\$ 9,501,313</u>



**HENDERSON COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses and Changes in Fund Net Position**  
**December 31, 2017 and 2016**

	2017	2016
Operating revenues:		
Water	\$ 2,920,301	\$ 2,817,495
Penalties and sundry	109,364	114,933
Total operating revenues	<u>3,029,665</u>	<u>2,932,428</u>
Operating expenses:		
Purchased water	1,031,997	1,085,254
Pumping utilities	58,496	49,065
Maintenance of system	272,140	313,968
Vehicle and equipment	33,215	31,334
Customer accounts	109,102	117,814
Administration	569,588	497,150
Depreciation	406,830	406,073
Total operating expenses	<u>2,481,368</u>	<u>2,500,658</u>
Operating income	<u>548,297</u>	<u>431,770</u>
Non-operating revenues (expenses):		
Investment income	24,160	11,646
Interest expense	(176,481)	(205,737)
Bond issuance cost	-	(48,700)
Total non-operating revenues (expenses)	<u>(152,321)</u>	<u>(242,791)</u>
Income (loss) before contributions	395,976	188,979
Capital contributions	<u>83,400</u>	<u>21,672</u>
Change in net position	479,376	210,651
Net position, beginning of year	<u>9,501,313</u>	<u>9,290,662</u>
Net position, end of year	<u>\$ 9,980,689</u>	<u>\$ 9,501,313</u>

**HENDERSON COUNTY WATER DISTRICT**

Statements of Cash Flows  
December 31, 2017 and 2016

	2017	2016
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 2,901,893	\$ 2,810,217
Cash payments to suppliers for goods and services	(1,321,391)	(1,428,112)
Cash payments to employees for services	(620,445)	(687,875)
Other operating revenues	109,364	114,933
Net cash provided by operating activities	<u>1,069,421</u>	<u>809,163</u>
<b>Cash flows from noncapital financing activities:</b>		
Increase (decrease) in customer deposits	<u>(7,107)</u>	<u>(3,450)</u>
Net cash provided by noncapital financing activities	<u>(7,107)</u>	<u>(3,450)</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(387,765)	(355,036)
Capital contributions	83,400	21,672
Proceeds from bond and notes payable issuance	-	3,152,347
Principal paid on revenue bond maturities and other capital notes	(321,559)	(3,570,419)
Interest paid on revenue bonds and other capital notes	<u>(172,095)</u>	<u>(201,675)</u>
Net cash (used) by capital and related financing activities	<u>(798,019)</u>	<u>(953,111)</u>
<b>Cash flows from investing activities:</b>		
(Increase) decrease in investment securities	(57,748)	(7,662)
Interest income	25,214	11,646
Net cash provided by investing activities	<u>(32,534)</u>	<u>3,984</u>
Net increase (decrease) in cash and cash equivalents	231,761	(143,414)
Cash and cash equivalents, beginning of year	<u>1,218,055</u>	<u>1,361,469</u>
Cash and cash equivalents, end of year	<u>\$ 1,449,816</u>	<u>\$ 1,218,055</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating income	\$ 548,297	\$ 431,770
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	406,830	406,073
Pension expense	144,608	79,586
(Increase) decrease in accounts receivable	(18,408)	(7,278)
(Increase) decrease in inventories	(11,443)	86,753
(Increase) decrease in prepaid expenses	132	4,923
(Increase) decrease in deferred outflows	(75,862)	(86,753)
Increase (decrease) in accounts payable	78,735	(98,480)
Increase (decrease) in accrued liabilities	(3,468)	(7,431)
Net cash provided by operating activities	<u>\$ 1,069,421</u>	<u>\$ 809,163</u>
<b>Summary of cash and cash equivalents:</b>		
Unrestricted cash equivalents	\$ 944,551	\$ 251,521
Restricted cash equivalents	505,265	966,534
Total cash and cash equivalents	<u>\$ 1,449,816</u>	<u>\$ 1,218,055</u>

## HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements

December 31, 2017 and 2016

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Henderson County Water District ("Water District") was created by the fiscal court of Henderson County under the provisions authorized by Chapter 74 of the Kentucky Revised Statutes.

The accounting and reporting framework and the more significant accounting principles are discussed in subsequent subsections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Henderson County Water District's financial activities for the year ended December 31, 2017.

#### **Financial Reporting Entity**

The Henderson County Water District's purpose is to construct, operate and maintain water service facilities and supply water to Henderson and Webster counties. It is legally separate from the Counties of Henderson and Webster, but its governing body is appointed by the Henderson County and Webster County Fiscal Courts.

The financial statements of the Henderson County Water District comprise a single business-type activity generally financed in whole or in part with fees charged to external customers. In evaluating how to define the Water District for financial reporting purposes, management has considered any potential component units, based upon the Water District's ability to exercise significant oversight responsibility. Oversight responsibility was determined on the basis of the Water District's ability to significantly influence operations, select the governing body, participate in fiscal management and the scope of public service. Based upon the application of these criteria, no potential component units were noted.

#### **Measurement Focus/Basis of Accounting**

Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned, including unbilled water services which are accrued. Expenses are recorded at the time liabilities are incurred.

The financial statements are prepared on the basis of Governmental Accounting Standards Board (GASB), Statement Number 34, Basic Financial Statements, Management Discussion and Analysis for State and Local Governments and related standards.

The Henderson County Water District is accounted for as an enterprise fund. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Water District applies all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

## HENDERSON COUNTY WATER DISTRICT

### Notes to Financial Statements

December 31, 2017 and 2016

Charges for services include revenues based on exchange or exchange-like transactions, namely water and sewer use. Program-specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

#### **Inventories**

Inventories are carried at the lower of cost (primarily first-in, first-out) or market.

#### **Cash**

The Water District reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

#### **Investments**

KRS 66.480 permits the Commission to invest in U.S. Treasury obligations, U.S. Agency obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit, savings and loan deposits, and the Commonwealth of Kentucky investment pool. Investments are recorded at fair market value based on quoted market prices. Any gains or losses are reflected in the statement of revenues, expenses and changes in net position, in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

#### **Restricted Assets**

Restricted assets are cash and cash equivalents, U.S. Treasury obligations and interest receivables whose use is limited by legal requirements. Restricted assets represent amounts required by debt covenants to be segregated for debt service reserves and future debt payments and accrued interest on long-term debt obligations.

#### **Receivables**

All receivables are reported net of estimated uncollectible amounts.

#### **Donated Lines**

From time to time prospective users have constructed and paid for line extensions and donated these additions to the Water District. These additions are recorded at cost invoiced to the user and are depreciated at rates based on their estimated useful life. Such additions are recorded as capital contributions.

## HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements

December 31, 2017 and 2016

### Capital Assets, Depreciation, and Amortization

The Water District's property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the basic financial statements. Donated assets are stated at fair value on the date donated. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The Public Service Commission has approved an upper limit of \$5,000 below which the cost of an item can be expensed. The District uses a capitalization threshold of \$500.

Estimated useful lives for depreciable assets are as follows:

Buildings	10-50
Distribution systems	15-62.5
Machinery and equipment	5-10
Office equipment and fixtures	5-10

### Tap Fees

Tap fees collected from new customers are recorded as capital contributions. The cost of installing the service lines and setting the water meters are capitalized and depreciated over their estimated useful lives.

### Compensated Absences

Accumulated unpaid vacation amounts are reported as "Other liabilities" in the basic financial statements. The accrued compensated balance at December 31, 2017 and 2016 was \$9,032 and \$10,861, respectively.

### Net Position

Net position presents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the statement of net position. Proprietary fund net position is divided into three components:

Invested in capital assets, net of related debt - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted net position - consist of net position that are restricted by the Water District's creditors (for example through debt covenants), by state enabling legislation, by grantors (both federal and state), and by other contributors.

Unrestricted - all other net position are reported in this category.

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements

December 31, 2017 and 2016

**Use of Restricted Resources**

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the Water District's policy is to apply the expense toward restricted resources and then toward unrestricted resources.

**NOTE 2 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

The allowance for uncollectible accounts receivable at December 31, 2017 and 2016 was \$9,571 and \$14,363, respectively.

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Water District's deposits may not be returned or the Water District will not be able to recover collateral securities in the possession of an outside party. At December 31, 2017, the carrying amount of the Water District's deposits, including certificates of deposit, was \$2,386,986. Of the total bank balances (including certificates of deposit), \$500,000 was covered by Federal Depository Insurance. As of December 31, 2017, the District's demand and time deposits were fully secured by federal depository insurance or by pledged collateral held by the custodial institutions.

Kentucky Revised Statutes authorize governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associates insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

**NOTE 4 - INVESTMENTS**

Investments stated at cost consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Current:		
Certificates of deposit	\$ 514,636	\$ 582,422
Noncurrent (restricted):		
Certificates of deposit	<u>422,534</u>	<u>297,000</u>
	<u>\$ 937,170</u>	<u>\$ 879,422</u>

**NOTE 5 - RISK MANAGEMENT**

The Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water District purchases commercial insurance for all risks of loss. There have been no significant reductions in insurance coverage

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements

December 31, 2017 and 2016

and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**NOTE 6 - CAPITAL ASSETS**

The following is a summary of changes in capital assets for the years ended December 31, 2017 and 2016:

	December 31, 2017			Ending Balance
	Beginning Balance	Increases	Decreases	
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 272,181	\$ -	\$ -	\$ 272,181
Capital assets, being depreciated:				
Distribution systems	18,463,740	332,516	246,077	18,550,179
Buildings	1,061,542	9,038	17,131	1,053,449
Equipment	612,367	51,225	15,006	648,586
Total capital assets	<u>20,409,830</u>	<u>392,779</u>	<u>278,214</u>	<u>20,524,395</u>
Less: accumulated depreciation				
Distribution systems	6,337,360	313,014	246,077	6,404,297
Buildings	448,509	44,441	17,130	475,820
Equipment	458,710	49,374	15,007	493,077
Total accumulated depreciation	<u>7,244,579</u>	<u>406,829</u>	<u>278,214</u>	<u>7,373,194</u>
Capital assets, net	<u>\$ 13,165,251</u>	<u>\$ (14,050)</u>	<u>\$ -</u>	<u>\$ 13,151,201</u>

	December 31, 2016			Ending Balance
	Beginning Balance	Increases	Decreases	
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 272,181	\$ -	\$ -	\$ 272,181
Capital assets, being depreciated:				
Distribution systems	18,318,547	353,114	207,921	18,463,740
Buildings	1,061,542	-	-	1,061,542
Equipment	615,080	1,922	4,635	612,367
Total capital assets	<u>20,267,350</u>	<u>355,036</u>	<u>212,556</u>	<u>20,409,830</u>
Less: accumulated depreciation				
Distribution systems	6,239,510	305,771	207,921	6,337,360
Buildings	404,385	44,124	-	448,509
Equipment	407,167	56,178	4,635	458,710
Total accumulated depreciation	<u>7,051,062</u>	<u>406,073</u>	<u>212,556</u>	<u>7,244,579</u>
Capital assets, net	<u>\$ 13,216,288</u>	<u>\$ (51,037)</u>	<u>\$ -</u>	<u>\$ 13,165,251</u>

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements

December 31, 2017 and 2016

**NOTE 7 - 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			
	Beginning Balance	Additions	Payments	Ending Balance
Revenue bond series 2013	1,674,000	-	21,500	1,652,500
Revenue bond series 2013 A	296,000	-	4,000	292,000
Revenue bond series 2016 B	3,080,000	-	265,000	2,815,000
Old National Bank note	319,977	-	31,059	288,918
	<u>5,369,977</u>	<u>-</u>	<u>321,559</u>	<u>5,048,418</u>
Add: unamortized premiums	67,524	-	7,234	60,290
Bonds/notes payable @ 12/31/2017	<u>\$ 5,437,501</u>	<u>\$ -</u>	<u>\$ 328,793</u>	<u>\$ 5,108,708</u>
	December 31, 2016			
	Beginning Balance	Additions	Payments	Ending Balance
Revenue bond series 2006 A	\$ 3,477,000	\$ -	\$ 3,477,000	\$ -
Revenue bond series 2013	1,695,000	-	21,000	1,674,000
Revenue bond series 2013 A	300,000	-	4,000	296,000
Revenue bond series 2016 B	-	3,080,000	-	3,080,000
Old National Bank note	350,000	-	30,023	319,977
	<u>5,822,000</u>	<u>3,080,000</u>	<u>3,532,023</u>	<u>5,369,977</u>
Add: unamortized premiums	-	72,347	4,823	67,524
Less: unamortized bond discounts	19,161	-	19,161	-
Bonds/notes payable @ 12/31/2016	<u>\$ 5,802,839</u>	<u>\$ 3,152,347</u>	<u>\$ 3,517,685</u>	<u>\$ 5,437,501</u>

On May 12, 2016, the Henderson County Water District issued \$3,080,000 Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds Series 2016 B, interest ranging from 2.25% to 3.25%, to advance refund outstanding 2006 A Water Revenue Bonds and with an outstanding balance of \$3,205,000. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the 2006 A series bond of \$116,209. This difference, reported in the accompanying financial statements as a deferred outflow of resources, will be charged to operations (included in "interest expense") through the year using the straight-line method.



**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements

December 31, 2017 and 2016

Bonds and notes payable at December 31, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
<b><u>Notes Payable:</u></b>		
Note payable to Old National Bank, dated December 2, 2015, due in monthly installments of \$3,428 including interest at 3.25%, secured by a pledge of system revenues	\$ 288,918	\$ 319,977
<b><u>Revenue Bonds:</u></b>		
\$3,080,000 Public Projects Water Refunding Revenue Bonds dated May 12, 2016 due in annual installments of \$265,000 to \$285,000 through January 1, 2026, interest payable semiannually on February 1 and August 1, with a rate of 3.25%	2,815,000	3,080,000
Add: unamortized bond premium	60,290	67,524
\$1,695,000 Waterworks Revenue Bonds, Series 2013 dated July 25, 2012 due in annual installments of \$21,000 to \$79,500 through January 1, 2052, interest payable semiannually on January 1 and July 1, with a rate of 3.75%.	1,652,500	1,674,000
\$300,000 Waterworks Revenue Bonds, Series 2013A dated July 25, 2012 due in annual installments of \$4,000 to \$13,500 through January 1, 2053, interest payable semiannually on January 1 and July 1, with a rate of 3.5%.	<u>292,000</u>	<u>296,000</u>
Total bonds and notes payable	5,108,708	5,437,501
Less: current portion	<u>363,598</u>	<u>321,559</u>
Long-term portion	<u>\$ 4,745,110</u>	<u>\$ 5,115,942</u>

The annual requirements to amortize all bonds/notes outstanding as of December 31, 2017, including interest payments are as follows:

<u>Year ending December 31</u>	<u>Revenue Bonds/Notes</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 363,598	\$ 141,694	\$ 505,292
2019	376,171	129,065	505,236
2020	392,761	117,617	510,378
2021	404,928	107,593	512,521
2022	412,613	97,361	509,974
2023-2026	1,432,347	293,071	1,725,418
2027-2031	199,000	281,087	480,087
2032-2036	239,500	238,447	477,947
2037-2041	287,000	187,262	474,262
2042-2046	344,500	125,766	470,266
2047-2051	413,000	52,062	465,062
2052 and thereafter	<u>183,000</u>	<u>402</u>	<u>183,402</u>
	<u>\$ 5,048,418</u>	<u>\$ 1,771,427</u>	<u>\$ 6,819,845</u>

## HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements

December 31, 2017 and 2016

The bond indenture agreements include certain stipulations and restrictive covenants. The Water District is in compliance with all significant limitations and restrictions.

### **NOTE 8 - PENSION PLAN**

#### **Plan Description**

The Henderson County Water District contributes to the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System (KRS). CERS 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, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

#### **Funding Policy**

For the fiscal years ended December 31, 2017, 2016 and 2015 plan members were required to contribute 5% their annual creditable compensation and the District was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding 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 December 31, 2017, 2016 and 2015, participating employers contributed 17.06%, 17.67% and 18.89% for CERS non-hazardous, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended December 31, 2016 and 2015, were 17.06% and 17.67% for CERS non-hazardous, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings. The District's contributions to CERS for the fiscal years ending December 31, 2017, 2016 and 2015 were \$75,862, \$76,036 and \$72,111, respectively, equal to the required contributions for each year.

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 1 structure of benefits. 5% of the contribution was deposited to the member's account while the 1% was deposited into an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administration Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%.

**HENDERSON COUNTY WATER DISTRICT**  
Notes to Financial Statements  
December 31, 2017 and 2016

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

At December 31, 2017, the District reported a liability of \$908,933 for its proportionate share of the net pension liability. The net pension liability 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 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 KRS members, actuarially determined. At June 30, 2016, the District's proportion was .0018005 percent. For the year ended December 31, 2017 the District recognized pension expense of \$144,608. At December 31, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Amounts per the audited KRS financial report	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 3,870	\$ -
Changes in assumptions	46,961	-
Net difference between projected and actual investment earnings on pension plan investments	83,338	-
Changes in proportion and differences between District contributions and proportionate share of contributions	24,699	(4,606)
District's contributions subsequent to the measurement date (fiscal year 2017 District contributions)	<u>75,862</u>	<u>-</u>
Total	<u>\$ 234,730</u>	<u>\$ (4,606)</u>

\$75,862 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	
2017	\$ 69,062
2018	69,062
2019	52,863
2020	18,548
2021	-
	<u>\$ 209,535</u>

**HENDERSON COUNTY WATER DISTRICT**

Notes to Financial Statements

December 31, 2017 and 2016

**Actuarial Valuation**

The following presents the net pension liability of CERS, calculated using the discount rate of 7.5%, as well as what CERS' net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate for non-hazardous.

		<u>Non-Hazardous</u> Discount	
	1% Decrease (6.5%)	Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of Net Pension Liability	\$1,104,719	\$886,497	\$699,438

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Cash Equivalent Long Term Expected Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Equity	19%	1.50%
Real Return (Div. Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Div. Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
 Total	 <u>100%</u>	

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

The actuarial valuation date upon which the total pension liability was based is June 30, 2016. An expected total pension liability is determined as of June 30, 2016, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of June 30, 2016.

## HENDERSON COUNTY WATER DISTRICT

### Notes to Financial Statements

December 31, 2017 and 2016

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 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 BB to 2013 (set back four year for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The long-term assumed rate of return was based upon an analysis adopted by the Board of Trustees on December 3, 2015. The discount rate used to measure the total pension liability for KERS Non-Hazardous and SPRS was 6.75%. However, for KERS Hazardous, CERS Non-Hazardous, and Hazardous, the discount rate remained at 7.5%. The long term assumed investment rate of return and discount rate were based upon an analysis adopted by the Board of Trustees on December 3, 2015.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

#### **Pension Plan fiduciary net**

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

# HENDERSON COUNTY WATER DISTRICT

Notes to Financial Statements

December 31, 2017 and 2016

## NOTE 9 - OTHER EMPLOYEE BENEFITS

### Compensated Absences

All employees of the Water District earn and accrue vacation and sick time. Employees accumulate two weeks paid vacation after the first year of service, three weeks after five years of service and four weeks after twenty years of service. Employees accrue one sick day per month which may be carried over each year. Upon termination, accumulated sick days are converted to vacation days at the rate of four sick days equaling one vacation day. An employee leaving for retirement will be paid their accumulated vacation and sick days converted to vacation as noted above. An employee leaving for any other reason will be paid only their accumulated vacation days. This liability is recorded in the financial statements.

### Post Employment Benefits

In addition to the pension benefits described in Note 8, the Water District participates in the Kentucky Retirement Systems Insurance Fund (Fund). The Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701 to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System (Systems). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The Kentucky Retirement Systems Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for members received benefits for KERS, CERS, and SPRS. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2016, insurance premiums withheld from benefit payments for members of the Systems were \$20.6 million and \$1.2 million for KERs non-hazardous and hazardous, respectively, \$22.6 million and \$2.2 million for CERS non-hazardous and hazardous, respectively, and \$241,535 for SPRS. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As of June 30, 2016, the Fund had 113,280 retirees and beneficiaries for whom benefits were available.

The amount of contribution paid by the Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Paid by Insurance Fund</u>
20 or more	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

## HENDERSON COUNTY WATER DISTRICT

### Notes to Financial Statements

December 31, 2017 and 2016

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, such employee's spouse receives ten dollars (\$10) per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statutes. The General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

#### **NOTE 10 - DEFERRED OUTFLOWS**

Deferred outflows reported for the years ending December 31, 2017 and 2016, consisted of the following:

	2017	2016
Loss on defeasance of bonds	\$ 96,841	\$ 108,462
District's proportion related to net pension liability	286,509	162,758
	<u>\$ 383,350</u>	<u>\$ 271,220</u>

#### **NOTE 11 - DATE OF MANAGEMENT REVIEW**

Management of the District has evaluated subsequent events through March 5, 2018, which is the date the financial statements were available to be issued.

**Henderson County Water District**  
**Schedule of the District's Proportionate**  
**Share of Net Pension Liability**  
**County Employee Retirement System**  
**Year Ended December 31, 2017**

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	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.018005%	0.017380%	0.017380%
District's proportionate share of the pension liability (asset)	\$ 908,933	\$ 713,386	\$ 563,873
District's covered-employee payroll	\$ 400,712	\$ 425,653	\$ 424,452
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	226.83%	167.60%	132.85%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	18.83%	66.80%



**Henderson County Water District**  
 Schedule of District Contributions  
 Kentucky Retirement System  
 Year Ended December 31, 2017

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	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 75,862	\$ 76,005	\$ 72,111
Contributions in relation to the contractually required contribution	<u>(75,862)</u>	<u>(76,005)</u>	<u>(72,111)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 400,712	\$ 425,653	\$ 424,452
Contributions as a percentage of covered-employee payroll	18.93%	17.86%	16.99%

**HENDERSON COUNTY WATER DISTRICT**  
Schedule of Revenues, Expenses and Changes in Fund Net Position  
Budget and Actual  
Year Ended December 31, 2017

	Actual Amounts	Budgeted Amounts	Over/(Under) Budget
Operating revenues:			
Water	\$ 2,920,301	\$ 3,194,190	\$ (273,889)
Penalties and sundry	109,364	117,408	(8,044)
Total operating revenues	<u>3,029,665</u>	<u>3,311,598</u>	<u>(281,933)</u>
Operating expenses:			
Purchased water	1,031,997	1,087,244	(55,247)
Pumping utilities	58,496	54,000	4,496
Maintenance of system	272,140	322,200	(50,060)
Vehicle and equipment	33,215	43,200	(9,985)
Customer accounts	109,102	121,100	(11,998)
Administration	569,588	574,703	(5,115)
Depreciation	406,830	390,000	16,830
Total operating expenses	<u>2,481,368</u>	<u>2,592,447</u>	<u>(111,079)</u>
Operating income	<u>548,297</u>	<u>719,151</u>	<u>(170,854)</u>
Non-operating revenues (expenses):			
Investment income	24,160	2,400	21,760
Interest expense	(176,481)	(244,911)	68,430
Total non-operating revenues (expenses)	<u>(152,321)</u>	<u>(242,511)</u>	<u>90,190</u>
Income (loss) before contributions	395,976	476,640	(80,664)
Capital contributions	<u>83,400</u>	<u>-</u>	<u>83,400</u>
Change in net assets	479,376	476,640	2,736
Net position, beginning of year	<u>9,501,313</u>	<u>9,501,313</u>	<u>-</u>
Net position, end of year	<u>\$ 9,980,689</u>	<u>\$ 9,977,953</u>	<u>\$ 2,736</u>

**HENDERSON COUNTY WATER DISTRICT**  
Schedule of System Maintenance, Customer Accounts  
and Administrative Expenses  
Years Ended December 31, 2017 and 2016

	2017	2016
<u>Maintenance of System:</u>		
Maintenance of mains	\$ 197,974	\$ 217,614
Materials & supplies - transmission	70,950	82,674
Materials & supplies - pumping	1,655	3,353
Maintenance of tanks	1,309	8,207
Rental - equipment	252	2,120
	<u>\$ 272,140</u>	<u>\$ 313,968</u>
<u>Customer accounts:</u>		
Salaries - meter reading	\$ 14,482	\$ 16,896
Billing and collections - labor and materials	90,754	95,641
Bad debts	3,594	5,277
Collection fees	272	-
	<u>\$ 109,102</u>	<u>\$ 117,814</u>
<u>Administration:</u>		
Salaries	\$ 92,630	\$ 95,640
Vacation and unassigned salaries	61,003	40,428
Commissioner's fees	9,600	9,300
Payroll taxes	35,953	36,211
Employee benefits	239,522	179,852
Office and computer expense	12,360	11,649
Telephone and utilities	12,187	11,605
Advertising	306	341
Professional fees	18,716	16,143
Insurance	55,938	62,342
Contractual services	-	1,893
Regulatory commission	8,305	6,675
Maintenance - office	10,984	10,179
Miscellaneous and general	12,084	14,892
	<u>\$ 569,588</u>	<u>\$ 497,150</u>

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 Board of Commissioners  
Henderson County Water District  
Henderson, 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 Henderson County Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Henderson County Water District's basic financial statements and have issued our report thereon dated March 5, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Henderson 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Henderson County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Henderson 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. [2017-1].

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Henderson 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*.

**Henderson County Water District's Response to Findings**

Henderson County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Henderson 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.

Kemper CPA Group LLP

Certified Public Accountants and Consultants

Henderson, Kentucky

March 5, 2018

Henderson County Water District  
Schedule of Findings and Responses  
Year Ended December 31, 2017

**FINDINGS – FINANCIAL STATEMENT AUDIT**

2017-1

Due to a limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust in employees is necessitated. Ideally, each key step of an accounting system should be segregated among employees. However, this is not always feasible due to the cost versus benefit relationship inherent in providing internal control. In the process of segregating functions among employees, management must continually make decisions relating to the applicable costs in comparison to the expected benefits to be achieved.

*Deficiency:* The Water District has a lack of segregation of duties involving key steps in the accounting system between employees.

*Criteria:* Internal controls should be in place that provides reasonable assurance that accounting transactions (billings, adjustments, cash receipts and disbursements) are properly recorded and authorized.

*Effect:* Because of a lack of segregation of duties involving key steps in the accounting system, transactions may occur that are not properly recorded, or authorized.

*Recommendation:* We recommend the segregation of duties between accounting employees to the extent possible based on limited personnel.

*Management Response:* Management is aware of the costs and benefits related to providing internal control, however, the risk of loss is mitigated via the purchase of insurance coverage to protect the Water District against loss. Management and those charged with governance will continue to provide strong oversight to the Water District's operations.