

BIG SANDY  
WATER DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
for the year ended December 31, 2017

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Big Sandy Water District  
Catlettsburg, Kentucky

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

We have audited the accompanying financial statements of the business-type activities of the Big Sandy Water District as of and for the year ended December 31, 2017 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 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 Big Sandy Water District as of December 31, 2017, and the respective changes in financial position, and cash flows 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 & analysis on pages 3 and 4 and pension schedules & notes on pages 17-19 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 Big Sandy Water District's basic financial statements. The comparative statement of revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The comparative statement of revenues and expenses is the responsibility of management and was 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 comparative statement of revenues and expenses is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other reports required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated June 1, 2018 on our consideration of the Big Sandy 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 Big Sandy Water District's internal control over financial reporting and compliance.

*John T. Lane & Associates, LLC*

Mount Sterling, Kentucky

June 1, 2018

This report contains 21 pages.

## **Management's Discussion and Analysis**

In June, 1999, the Governmental Accounting Standards Board (GASB) adopted Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The standard requires that a "Management Discussion and Analysis" be included in the annual report along with annual audited financial statements.

Our discussion and analysis of the Big Sandy Water District's Financial performance provided an overview of the Company's financial activities for the year ended December 31, 2017. This information is presented in conjunction with the audited financial statements that follow this section.

### **Financial Highlights**

In 2017, Big Sandy Water District had four significant activities that affected our financial status.

In March 2017, Big Sandy purchased a 2018 Kubota Excavator for \$59,970.00. We are making monthly payments of \$1249.37 for 48 months.

In May 2017, Big Sandy purchased two 2017 Chevrolet Silverado Trucks for \$29,500.00 each.

In August 2017, Big Sandy purchased the property next to our office for \$60,000.00.

In December 2017, Big Sandy purchased a 2018 Kraftsman trailer for \$7,410.00.

### **Required Financial Statements**

The financial statements of Big Sandy Water District (BSWD) reports information of BSWD using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information and its activities. The Statement of New Assets included all of Big Sandy Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to BSWD creditors (liabilities). It also provides the basis for evaluating the capital structure of BSWD and assessing the liquidity and financial flexibility of BSWD.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of Big Sandy Water District's operations over the past year and can be used to determine whether BSWD has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in cash balance during the reporting period.

### **Financial Analysis**

Total assets to total liabilities for 2017 show a ratio of 2.69 to 1 meaning BSWD has \$2.69 worth of assets to each \$1.00 worth of liabilities. This compares to 2016 at 2.65 to 1 and 2015 at 2.65 to 1.

The Operating Revenue in 2017 increased to \$2,608,768 from \$2,586,770. Thirty-nine percent of the revenue goes to purchase water. Twenty-two percent of the revenue goes to hourly employees and benefits.

Charge-off accounts that were deemed not collectable were \$14,970 in 2017 compared to \$15,225 in 2016. This is .57% of revenue. That amount is covered by the \$57,812 collected as late payment penalties.

### **Request for Information**

This financial report is designed to provide our customers and creditors with a general overview of Big Sandy Water District's Finances and to demonstrate Big Sandy Water District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact James Blanton or Teresa Brown at (606) 928-2075 or 1-800-354-2933.

Big Sandy Water District  
Statement of Net Position  
Proprietary Fund Type  
December 31, 2017

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 665,583
Cash and cash equivalents - restricted (note 6)	559,367
Accounts receivable - net of allowance for doubtful accounts (note 1)	247,569
Inventory	57,239
Prepaid expenses	<u>11,819</u>
Total Current Assets	<u>1,541,577</u>
Noncurrent Assets	
Capital assets: (note 1)	
Land	99,529
Construction in process	56,125
Plant, equipment and lines	20,278,763
Less accumulated depreciation	<u>(8,405,313)</u>
Total Noncurrent Assets	<u>12,029,104</u>
Deferred outflow of resources	<u>227,268</u>
Total Assets & Deferred Outflow of Resources	<u><u>\$ 13,797,949</u></u>

LIABILITIES

Current Liabilities	
Accrued expenses	\$ 121,251
Notes/Bonds payable (note 2)	207,992
Payable from restricted assets	<u>127,786</u>
Total Current Liabilities	<u>457,029</u>
Noncurrent Liabilities	
Notes/Bonds payable (note 2)	3,771,122
Accrued pension & OPEB liabilities	<u>801,493</u>
Total Noncurrent Liabilities	<u>4,572,615</u>
Deferred Inflows of Resources	<u>93,209</u>
Total Liabilities & Deferred Inflow of Resources	<u>5,122,853</u>

Net Position

Net investment in capital assets	8,049,990
Restricted	431,581
Unrestricted	<u>193,525</u>
Total Net Position	<u><u>\$ 8,675,096</u></u>

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

Big Sandy Water District  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Fund Type  
For the year ended December 31, 2017

Revenues	
User fees	\$ 2,575,375
Other water revenue	<u>33,393</u>
Total Revenues	<u>2,608,768</u>
Expenses	
Wages	334,428
Commissioners expense	1,807
Taxes & benefits	227,168
Purchased water & power	1,010,748
Materials & supplies	172,783
Contractual services	67,383
Transportation expense	20,882
Equipment expense	14,302
Insurance	24,928
Postage	19,671
Bad debt	14,970
Other expense	20,408
Telephone	6,261
Depreciation	<u>436,105</u>
Total Operating Expenses	<u>2,371,844</u>
Operating Income (Loss)	<u>236,924</u>
Nonoperating Revenues (Expenses)	
Tap fees	20,075
Interest income	1,649
Grant income	55,946
Gain on sale of capital assets	8,700
Interest expense	<u>(156,681)</u>
Net Nonoperating Revenues (Expenses)	<u>(70,311)</u>
Net Income (Loss)	166,613
Total Net Position - beginning	<u>8,508,483</u>
Total Net Position - ending	<u><u>\$ 8,675,096</u></u>

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

Big Sandy Water District  
Statement of Cash Flows  
Proprietary Fund Type  
December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 2,606,309
Cash paid to employees	(334,428)
Cash paid for general and administrative expenses	<u>(1,574,098)</u>
Net Cash provided by operating activities	<u>697,783</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	1,649
Customer deposits	<u>(960)</u>
Net Cash provided by investing activities	<u>689</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Note/bond payments	(200,244)
Note/bond proceeds	59,970
Tap fees	20,075
Purchase of assets	(283,571)
Grant income	55,946
Sale of assets	8,700
Interest paid	<u>(155,233)</u>
Net Cash used in capital and financing activities	<u>(494,357)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	204,115
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,020,835</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 1,224,950</u></u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ 236,924
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(Increase)/Decrease in inventory	9,652
Depreciation	436,105
Pension expense	95,827
(Increase)/Decrease in accounts receivable	(2,459)
Increase/(Decrease) in accounts payable	<u>(78,266)</u>
Net cash provided by operating activities	<u><u>\$ 697,783</u></u>

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

BIG SANDY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

Note 1 - Summary of Significant Accounting Policies

The Big Sandy Water District is a water utility which services areas of Boyd, Carter, Johnson and Lawrence Counties. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1981. The District is subject to the regulatory District of the Kentucky Public Service Commission pursuant to KRS 278. 040.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

**The Reporting Entity**

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Big Sandy Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are not other organizations included in these financial statements.

**Depreciation Reserve Fund** - Monthly transfers are required to be made into this fund until it reaches the fully funded level of \$233,400. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside \$204,641 into this fund at December 31, 2017. The required balance at December 31, 2017 is \$198,120.

**Bond and Interest Sinking Fund (USDA)** - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2017 was \$123,037. The District had set aside \$159,180.

**Bond and Interest Sinking Fund (KRWFC)** - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2017 was \$139,721. The District had set aside \$141,618.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Enterprise Funds**

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

**Basis of Accounting**

The records of the District are maintained and the budgetary process is based on the accrual method of accounting.

### Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded as an asset at that time. They are recorded at lower of cost or market valued on the FIFO method.

### Cash

At December 31, 2017, the carrying amount of the District's deposits was \$1,224,950 and the bank balance was \$1,271,862. Of the bank balance \$419,956 was covered by federal deposit insurance and \$851,906 was collateralized with securities held by the pledging financial institution's trust department. The District considers all investments with a maturity of three months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents.

### Capital assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Lines and tanks	50 years
Hydrants	30 years
Meters	20 years
Equipment	10 years
Vehicles	5 years

The District's capitalization policy is as follows: expenditures costing more than \$5,000 with an estimated useful life greater than one year are capitalized; all others are expensed.

### Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

### Investments

Investments are carried at cost which is the lower of cost or fair market value.

### Accounts Receivable

The receivable reflected in the statements in the amount of \$247,569 is net of allowance for uncollectible in the amount of \$-0-.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2017, seven separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A

Lender – Rural Development

Balance of loan - \$780,000

Rate – 4.5%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note B

Lender – USDA

Balance of loan - \$423,500

Rate – 4.5%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note C

Lender – USDA

Balance of loan - \$1,018,500

Rate – 2.75%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note D

Lender – USDA

Balance of loan - \$361,500

Rate – 4.5%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision – subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note E

Lender – KRWFC

Balance of loan - \$557,000

Rate – Variable

Principal due – January 1

Interest due January 1 and July 1

Note F

Lender – KRWFC

Balance of loan - \$620,000

Rate – variable

The bonds were sold at a premium of \$84,203, which is being amortized over the term of the bond. The unamortized bond premium is recorded as a noncurrent liability. The premium amortization which is a decrease to interest expense was \$5,263 for 2016. The unamortized bond premium at December 31, 2016 was \$63,151.

Principal due – January 1

Interest due – January 1 and July 1

Note G

Lender – USDA

Balance of loan - \$112,000

Rate – 3.25%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note H

Lender – Kubota Credit Corporation  
 Balance of loan - \$48,726  
 Rate –0%  
 Principal- monthly payments of \$1,249

Schedule of Notes/Bonds Payable	balance		balance		Current Portion
	<u>12/31/2016</u>	<u>Additions</u>	<u>Payments</u>	<u>12/31/2017</u>	
USDA 91-07	\$811,500	\$-	\$31,500	\$780,000	\$33,000
USDA 91-10	372,500	-	11,000	361,500	11,500
USDA 91-11	433,500	-	10,000	423,500	10,000
USDA 91-16	1,034,500	-	16,000	1,018,500	16,000
USDA 91-18	113,500	-	1,500	112,000	1,500
Kubota	-	59,970	11,244	48,726	14,992
Kentucky Rural Water 2007	601,000	-	44,000	557,000	46,000
Kentucky Rural Water 2013	<u>695,000</u>	<u>-</u>	<u>75,000</u>	<u>620,000</u>	<u>75,000</u>
	<u>\$4,061,500</u>	<u>\$59,970</u>	<u>\$200,244</u>	<u>\$3,921,226</u>	<u>\$207,992</u>
Bond premium	<u>63,151</u>	<u>-</u>	<u>5,263</u>	<u>57,888</u>	<u>-</u>
	<u>\$4,124,651</u>	<u>\$59,970</u>	<u>\$205,507</u>	<u>\$3,979,114</u>	<u>\$207,992</u>

Schedule of maturities

	<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
2018	207,992	144,556	2028-2032	677,500	253,893
2019	212,992	136,351	2033-2037	442,500	141,197
2020	218,492	127,921	2038-2042	269,000	81,273
2021	212,250	119,282	2043-2047	187,500	48,813
2022	209,000	110,530	2048-2052	216,000	19,938
2023-2027	968,500	427,229	2053-2057	<u>99,500</u>	<u>151</u>
				\$3,921,226	\$1,611,134

Note 3 - Leave Policies

The District's employees are covered by leave policies as follow:

- a) sick leave – one day per month to a maximum accumulation of sixty days;
- b) annual leave – five days per annum with 1-2 years employment; ten days per annum with 3-9 years employment; fifteen days per annum after 10 years employment. One week of annual leave may be carried forward to the next year, but must be taken by March 31<sup>st</sup> of that year. Up on the retirement, termination of or medical retirement of an employee the District shall continue to employ and pay the employee for any accrued earned vacation days. The employee termination date shall be the last day of earned vacation paid.

Note 4 - Changes in Capital assets

The following is a summary of changes in the capital assets for the fiscal year:

	balance <u>12/31/16</u>	Transfer/ <u>Additions</u>	<u>Deletions</u>	balance <u>12/31/17</u>
Land	\$39,529	\$60,000	\$-	\$99,529
Structures & improvements	121,531	-	-	121,531
Distributions system	17,762,561	-	-	17,762,561
Utility plant in service (UPIS)	124,728	-	-	124,728
UPIS acquisition adjustment	24,805	-	-	24,805
Vehicles	210,951	66,409	(48,732)	228,628
Equipment	1,915,473	101,037	-	2,016,510
Construction in process	-	56,125	-	56,125
	<u>20,199,578</u>	<u>283,571</u>	<u>(48,732)</u>	<u>20,434,417</u>
Accumulated depreciation	<u>8,017,940</u>	<u>436,105</u>	<u>(48,732)</u>	<u>8,405,313</u>
Net capital assets	<u>12,181,638</u>			<u>12,029,104</u>

Note 5 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account.

Note 6 - Restricted Cash

Restricted cash is composed of the following:

Deposit account	\$53,928
Depreciation reserve fund	204,641
Debt reserve fund Regions (KRWFC)	141,618
Debt reserve fund (USDA)	<u>159,180</u>
	<u>\$559,367</u>

Note 7 - Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2017. Areas of noncompliance, if any, as a result of examinations would be included as a part of the "Findings and Questioned Costs" section of this report.

Note 8 - Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

Note 9 - Investments

The District's investment policy is governed by the Kentucky Statutes. These requirements authorize the District to invest in obligations backed by full faith and credit of the United States and obligations of any corporation of the United States government. The policy requires that amounts on deposit with financial institutions be collateralized at a rate of 100% of amounts in excess of deposit insurance coverage.

Note 10 – Subsequent Events

The District has evaluated subsequent events through June 1, 2018 the date which the financial statements were available to be issued.

Note 11 – Defined Benefit Pension Plan

**General Information About the Pension Plan**

*Plan description* - Regular, full-time, employees of the District are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested as a whole each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the District to establish and amend the benefit terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky Retirement System issues a publicly available financial report that can be obtained on their website.

*Benefits provided* - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the Legislature.

*Contributions* - Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The District's contractually required contribution rate for the year ended December 31, 2017 was 18.68% & 19.18% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$48,749 for the year ended December 31, 2017. The District's contribution was allocated \$36,170 to the pension fund and \$12,579 to the insurance fund.

**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 of \$801,493 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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 portion of the net pension liability was based on the District's proportionate share of retirement contributions for the fiscal year ended June 30, 2017. At June 30, 2017 the District's proportionate share was 0.013693%.

For the year ended December 31, 2017, the District recognized pension expense of \$130,982. At December 31, 2017, 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>
Net difference between projected and actual earnings on pension plan investments	\$-0-	\$-0-
Differences between expected and actual Experience	64,471	73,909
Changes in assumptions	147,897	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,173	19,300
District's contributions subsequent to the measure date	<u>13,727</u>	<u>-0-</u>
Total	\$227,268	\$93,209

\$13,727 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. The remaining amount of \$120,332 reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2018	\$54,680
December 31, 2019	52,918
December 31, 2020	23,027
December 31, 2021	(10,293)
December 31, 2022	-0-
Thereafter	<u>-0-</u>
Total	\$120,332

*Actuarial assumptions* - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	2.00% average, including inflation
Investment rate of return	6.25%, net of pension plan investment expense including inflation

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008-June 30, 2013.

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

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

*Discount rate* - The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate* - The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease <u>5.25%</u>	Current Discount Rate <u>6.25%</u>	1% Increase <u>7.25%</u>
District’s proportionate share of the net pension liability	\$1,010,856	\$801,493	\$626,363

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

Note 12- Overland Development

During 2016 the District acquired Overland Development Inc. (Overland). The District acquired the water utility system, including its water lines and approximately 116 meters. Overland services the Lockwood Estates area of Boyd County, Kentucky. The District paid \$50,000 to acquire Overland and will pay Overland an additional \$50,000 over the next sixty months (\$833.33/month) for consulting services. No provision has been made for the monthly payments. These monthly payments will be recognized as an expense monthly, as the consulting services are provided.

At the time of acquisition, Overland's capital assets totaled \$124,728 and its accumulated depreciation on the assets totaled \$99,533. The District has included these amounts with its capital assets and accumulated depreciation. As a result an acquisition adjustment of \$24,805 has also been included and is being amortized accordingly.

REQUIRED SUPPLEMENTAL INFORMATION

**Big Sandy Water District**  
**Schedule of Proportionate Share of Net Pension Liability**  
**12/31/2017**

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
PHA's proportion of the net pension liability	0.013693%	0.014360%	0.014640%
PHA's proportionate of the net pension liability	801,493	707,032	629,451
PHA's covered employee payroll	340,789	342,371	334,849
PHA's proportionate share of the net pension liability as a percentage of its covered employee payroll	235.19%	206.51%	187.98%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%

**Big Sandy Water District  
Schedule of Pension Contributions  
12/31/2017**

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Contractually required contribution	36,170	46,709	43,278
Contributions in relation to the contractually required contribution	<u>36,170</u>	<u>46,709</u>	<u>43,278</u>
Contribution deficiency	-	-	-
PHA's covered payroll	255,681	353,920	343,796
Contributions as a percentage of covered employee payroll	14.15%	13.20%	12.59%

BIG SANDY WATER DISTRICT  
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION  
December 31, 2017

**Method and assumptions used in calculations of actuarially determined contributions.** The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. 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 contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	20% of the difference between market value of assets and the expected actuarial value of assets recognized
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

SUPPLEMENTAL INFORMATION

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Kentucky Society of CPA's

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

Board of Commissioners  
Big Sandy Water District  
Catlettsburg, 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 the Big Sandy Water District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Big Sandy Water District's basic financial statements and have issued our report thereon dated June 1, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Big Sandy 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 Big Sandy Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Big Sandy 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Big Sandy 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.

*John T. Lane & Associates, LLC*  
Mount Sterling, Kentucky  
June 1, 2018

Big Sandy Water District  
 COMPARATIVE STATEMENT OF REVENUES AND EXPENSES  
 for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
User fees	\$ 2,575,375	\$ 2,552,418
Other water revenue	<u>33,393</u>	<u>34,352</u>
Total Revenues	<u>2,608,768</u>	<u>2,586,770</u>
Total Operating Expenses	<u>2,371,844</u>	<u>2,603,890</u>
Operating Income (Loss)	<u>236,924</u>	<u>(17,120)</u>
Nonoperating Revenues (Expenses)		
Tap fees	20,075	32,575
Donated fixed assets	-	30,291
Grant income	55,946	-
Interest income	1,649	1,094
Gain on sale of capital assets	8,700	1,778
Interest expense	<u>(156,681)</u>	<u>(154,713)</u>
Net Nonoperating Revenues (Expenses)	<u>(70,311)</u>	<u>(88,975)</u>
Net Income (Loss)	<u><u>\$ 166,613</u></u>	<u><u>\$ (106,095)</u></u>