

CHRISTIAN COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

CHRISTIAN COUNTY WATER DISTRICT

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INDEPENDENT AUDITORS' REPORT

Commissioners
Christian County Water District
Hopkinsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Christian County Water District as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christian County Water District as of December 31, 2017 and 2016, and the results of its operations and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension information on pages 4-14 and 41-43 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Christian County Water District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 audits 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 expenditures of federal awards is 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 June 12, 2018, on our consideration of Christian County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Christian County Water District's internal control over financial reporting and compliance.

DUGUID, GENTRY & ASSOCIATES, PSC

Duguid, Gentry & Associates, PSC

Certified Public Accountants
Hopkinsville, Kentucky

June 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

The management of Christian County Water District offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2017. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$726,307 or 8.09% from \$8,975,182 to \$9,701,489 when compared to the previous year.
- Operating revenues increased by \$195,489 or 5.91% from \$3,307,069 to \$3,502,558 when compared to the previous year.
- Operating expenses (excluding depreciation) increased by \$115,657 or 4.53% from \$2,553,651 to \$2,669,308 when compared to the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: (1) basic financial statements and (2) notes to basic financial statements. The basic financial statements and notes to these statements reflect the accounts and activities of the District.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information utilizing the full accrual basis of accounting. This method of accounting recognizes revenues when earned instead of when received and recognizes expenses when incurred rather than when paid. The financial statements conform to accounting principles which are generally accepted in the United States of America.

Statement of Net Position

The Statement of Net Position includes information on the District's assets and deferred outflows and the District's liabilities and deferred inflows with the difference between them reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Statement of Revenues, Expenses and Changes in Net Position

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses and Changes in Net Position presents the results of the District's operations over the course of the operating cycle. This statement can be used to determine whether the District has successfully recovered all of its actual costs including depreciation through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the time of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and delayed payment of current year expenses.

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
DECEMBER 31, 2017**

Statement of Cash Flows

The Statement of Cash Flows provides information on the District's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the operating cycle.

Financial Analysis of the Year Ended December 31, 2017

Over the past year, total assets and deferred outflows of the District increased by \$1,932,845 while total liabilities and deferred inflows increased by \$1,206,538. And, for the current period, the operating income of the District totaled \$251,695.

Condensed Statements of Net Position

The Statement of Net Position, shown in tabular format below, represents information on all of the District's assets and deferred outflows and the District's liabilities and deferred inflows with the difference between them reported as net position. The District's total net position increased in the current year by \$726,307 or 8.09%.

Our analysis that follows focuses on the District's net position (shown in Table 1) and the changes in components of net position (shown in Table 2) during the year.

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
DECEMBER 31, 2017**

**TABLE 1
CONDENSED STATEMENTS OF NET POSITION**

Analysis of Net Position

To better understand the District's actual financial positions and its ability to deliver services in future periods, the reader will need to review the various components of the net position category and obtain an understanding of how each related specifically to the business activities that we perform. For example, \$6,675,860 or 68.81% of net position represents investment in plant assets which is the lifeblood to the provision of water services. Another portion of net position, \$2,914,260 or 30.03% represents funds set aside for payment of debt, refunding of customer deposits, and capital purchases.

	2017	Restated 2016	Change in FY 2017 to FY 2016	
			Amount	Percent
Current and other assets	\$ 4,469,794	\$ 4,110,025	\$ 359,769	8.75%
Capital assets, net	16,133,039	14,674,528	1,458,511	9.94%
Total assets	20,602,833	18,784,553	1,818,280	9.68%
Deferred outflows of resources	387,801	273,236	114,565	41.93%
Long-term debt	10,632,699	9,699,358	933,341	9.62%
Current and other liabilities	456,769	383,249	73,520	19.18%
Total liabilities	11,089,468	10,082,607	1,006,861	9.99%
Deferred inflows of resources	199,677	-	199,677	0.00%
Net investment in capital assets	6,675,860	6,115,999	559,861	9.15%
Restricted	2,914,260	2,808,746	105,514	3.76%
Unrestricted	111,369	50,437	60,932	120.81%
Total net position	\$ 9,701,489	\$ 8,975,182	\$ 726,307	8.09%

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
DECEMBER 31, 2017**

**TABLE 2
Components of Net Position**

	2017	Restated 2016	Change in FY 2016 to FY 2017	
			Amount	Percent
Net investment in capital assets	\$ 6,675,860	\$ 6,115,999	\$ 559,861	9.15%
Restricted for customers' deposits	62,691	55,742	6,949	12.47%
Restricted for debt service	939,145	870,897	68,248	7.84%
Restricted for capital projects	1,912,424	1,882,107	30,317	1.61%
Unrestricted	111,369	50,437	60,932	120.81%
	<u>\$ 9,701,489</u>	<u>\$ 8,975,182</u>	<u>\$ 726,307</u>	8.09%

For the year ended December 31, 2017, *Net Position Invested in Capital Assets, Net of Related Debt* increased by \$559,861 or 9.15% compared to the previous year. The amount of this category is calculated by taking the depreciated value of our capital assets and subtracting the associated bond debt. This increase is primarily due to an overall net increase in debt of \$898,650, purchases and construction of property and equipment of \$2,040,066, and additions to accumulated depreciation of \$581,555.

In comparing the total amount to the prior year's balance of *Net Position Restricted for Debt Service*, there was an increase of \$68,248 or 7.84%. *Net Position Restricted for Capital Projects* increased \$30,317 or 1.61%.

Compared to the previous year's balance, there was an increase in *Unrestricted Net Position* of \$60,932 or 120.81%. Various factors were involved in this increase, including management's desire to cushion against fluctuations where funding sources become limited.

Unrestricted net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
DECEMBER 31, 2017**

Analysis of Current Assets

The textbook definition of "current assets" is balance sheet items which equal the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expense, and other assets that could be converted to cash in less than one year. Current assets are important to any financial analysis because it is from current assets that a business funds its ongoing, day-to-day operations. A comparison of the December 31, 2017 and 2016 balances by asset classification is shown in the table below.

**TABLE 3
Comparison of Current Assets**

	2017	2016	Change in FY 2016 to FY 2017	
			Amount	Percent
Cash and cash equivalents	\$ 623,218	\$ 435,681	\$ 187,537	43.04%
Accounts receivable and unbilled revenues	734,931	708,061	26,870	3.79%
Allowance for uncollectible accounts	(184,373)	(202,459)	18,086	-8.93%
Inventory	204,458	168,148	36,310	21.59%
Prepaid expenses	7,596	11,009	(3,413)	-31.00%
	<u>\$ 1,385,830</u>	<u>\$ 1,120,440</u>	<u>\$ 265,390</u>	23.69%

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
DECEMBER 31, 2017**

Analysis of Noncurrent Assets

Noncurrent assets represent assets that are not reasonably expected to be realized in cash or sold or consumed during the next fiscal year. When making the distinction between whether an asset should be considered current or noncurrent, liquidity or nearness to cash is not the proper basis for determining the classification. In making this determination, any encumbrances on the use of the asset must be considered. Thus, cash investments intended for liquidation or liabilities due beyond the one-year period are noncurrent assets, as would assets segregated or restricted for the liquidation of long-term debts (including amounts due within the next operating cycle). Assets designated to be used to acquire, construct, or improve capital assets would also be noncurrent. In the following table, the Noncurrent Assets of the District at December 31, 2017 and 2016 are compared to major classification. As indicated by the tabular information below, total noncurrent assets increased by \$105,514 or 3.76% compared to the previous year.

**TABLE 4
Comparison of Noncurrent Assets**

	2017	2016	Change in FY 2016 to FY 2017	
			Amount	Percent
Cash - customers' deposits	\$ 62,691	\$ 55,742	\$ 6,949	12.47%
Cash - bond and interest redemption	791,858	728,012	63,846	8.77%
Cash - depreciation reserve	1,124,790	1,105,776	19,014	1.72%
Cash - bond reserve	147,287	142,885	4,402	3.08%
Investments - depreciation reserve	787,634	776,331	11,303	1.46%
	<u>\$ 2,914,260</u>	<u>\$ 2,808,746</u>	<u>\$ 105,514</u>	3.76%

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
DECEMBER 31, 2017**

Analysis of Liabilities

In financial accounting, the term "liability" is defined as an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. To put it in more simplistic terms, this section analyzes the various claims that creditors have against the District's assets.

**TABLE 5
Comparison of Current Liabilities from Unrestricted Net Position**

	<u>2017</u>	<u>2016</u>	Change in FY 2016 to FY 2017	
			<u>Amount</u>	<u>Percent</u>
Accounts payable and accrued expenses	<u>\$ 212,409</u>	<u>\$ 152,036</u>	<u>\$ 60,373</u>	39.71%
	<u><u>\$ 212,409</u></u>	<u><u>\$ 152,036</u></u>	<u><u>\$ 60,373</u></u>	39.71%

Current Liabilities Payable from Unrestricted Assets held steady when compared to the previous year's balance.

Condensed Statements of Revenues, Expenses and Changes in Net Position

As indicated in Table 6, the change in net position for the fiscal year ended December 31, 2017 was \$726,307.

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
DECEMBER 31, 2017**

**TABLE 6
CONDENSED STATEMENTS OF REVENUES, EXPENSES and CHANGES IN NET POSITION**

	2017	Restated 2016	Change in FY 2016 to FY 2017	
			Amount	Percent
Operating revenues	\$ 3,502,558	\$ 3,307,069	\$ 195,489	5.91%
Non-operating revenues	40,605	37,895	2,710	7.15%
Total revenues	3,543,163	3,344,964	198,199	5.93%
Depreciation expense	581,555	582,860	(1,305)	-0.22%
Operating expenses	2,669,308	2,553,651	115,657	4.53%
Non-operating expenses	270,160	391,066	(120,906)	-30.92%
Total expenses	3,521,023	3,527,577	(6,554)	-0.19%
Income (loss) before grants and capital contributions	22,140	(182,613)	204,753	-112.12%
Grants and capital contributions	704,167	78,851	625,316	793.03%
Changes in net position	726,307	(103,762)	830,069	799.97%
Beginning net position	8,975,182	9,078,944	(103,762)	-1.14%
Ending net position	\$ 9,701,489	\$ 8,975,182	\$ 726,307	8.09%

Analysis of Revenue

For the 2017 fiscal year, the *Operating Revenues* of the system were \$3,502,558. This amount represented an increase of 195,489 or 5.91% percent compared with the previous year's total.

Included in *Non-Operating Revenues* are interest income of \$40,605.

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
DECEMBER 31, 2017**

Analysis of Expenses

The Total *Operating Expenses* for FY 2017 were \$3,250,863. The amount represents an increase of \$114,352 or 3.65% more than the prior fiscal year of \$3,136,511. The major categories of *Operating Expenses* are shown in the chart below.

**TABLE 7
Comparison of Operating Expenses**

	2017	Restated 2016	Change in FY 2016 to FY 2017	
			Amount	Percent
Water purchased	\$ 1,197,850	\$ 1,168,173	\$ 29,677	2.54%
Depreciation	581,555	582,860	(1,305)	-0.22%
Salaries	557,726	558,246	(520)	-0.09%
Maintenance and repairs	95,523	91,264	4,259	4.67%
Insurance	202,257	188,954	13,303	7.04%
Rental expense	2,610	1,470	1,140	77.55%
Electricity for pumping	76,618	74,729	1,889	2.53%
Professional services	37,340	31,315	6,025	19.24%
Office supplies and expense	165,005	136,548	28,457	20.84%
Operating materials and supplies	27,918	34,916	(6,998)	-20.04%
Payroll taxes and fringe benefits	273,984	243,301	30,683	12.61%
Transportation expenses	32,477	24,735	7,742	31.30%
	<u>\$ 3,250,863</u>	<u>\$ 3,136,511</u>	<u>\$ 114,352</u>	3.65%

As indicated by the comparative information presented above, water purchases increased by \$29,677 or 2.54% compared to the prior year. This is due to improved ground conditions and aggressive monitoring of system components by operational staff.

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
DECEMBER 31, 2017**

Capital Assets

Christian County Water District's investment in capital assets as of December 31, 2017 was \$16,133,039 (net of accumulated depreciation), as shown in the following table.

**TABLE 8
CAPITAL ASSETS**

	<u>2017</u>	<u>2016</u>
Capital assets not depreciated:		
Land and land rights	\$ 118,491	\$ 118,491
Construction in progress	<u>1,973,712</u>	<u>31,333</u>
Total nondepreciable historical cost	<u>2,092,203</u>	<u>149,824</u>
Capital assets depreciated:		
Structures and improvements	942,361	942,361
Supply mains	33,672	33,672
Pumping equipment	926,702	926,702
Treatment equipment	10,700	10,700
Reservoirs	3,033,988	3,033,988
Transmission mains	15,666,824	15,646,748
Services	247,664	247,664
Meters	1,254,834	1,216,493
Hydrants	822,439	822,439
Office equipment	150,615	150,615
Vehicles	257,974	257,974
Tools and miscellaneous	<u>476,902</u>	<u>437,632</u>
Total depreciable historical cost	<u>23,824,675</u>	<u>23,726,988</u>
Total capital assets	25,916,878	23,876,812
Less accumulated depreciation	<u>(9,783,839)</u>	<u>(9,202,284)</u>
Total capital assets, net	<u>\$ 16,133,039</u>	<u>\$ 14,674,528</u>

**CHRISTIAN COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
DECEMBER 31, 2017**

As of December 31, 2017, the District's investment in net capital assets totaled \$16,133,039 which is an increase of \$1,458,511 over the net capital asset balance at December 31, 2016. Capital assets had additions of \$2,040,066 offset by additions to accumulated depreciation of \$581,555.

Long-term Debt

As of December 31, 2017, the District had \$9,457,179 (net of premium and discounts) in outstanding debt compared to \$8,558,529 as of December 31, 2016. Long-term debt activity consisted of a reduction of principal of \$385,300. Other long-term debt increased \$1,283,950 with the issuance of Rural Development interim financing.

Additional information on the District's long-term debt is provided in Note 5 of the financial statements.

ECONOMIC FACTORS AND RATES

Management and the District Commissioners review the District's water rates annually. The District experienced a rate increase in June 2017. This is due to a proposed water line replacement project Phase 8. This project will replace approximately 38 miles of aging infrastructure. The funding sources for this project will be Christian County Water District, USDA Rural Development and a Community Development Block Grant (CDBG). Construction started in June 2017.

The proposed rate increase was approved by the Kentucky Public Service Commission (PSC) June 14, 2017. This increase, increased the current flat rate of \$16.00 per meter per month to \$19.95 per meter per month. It also increased the consumption rate from \$6.49 per 1,000 gallons to \$6.54 per 1,000 gallons. Factors which affected this increase were the recommendations of USDA-Rural Development and a review by the PSC. Following this review and concurrence by these parties, the PSC established a rate which will be paid by the Christian County Water District rate payers.

It is the current opinion of management to look at replacing aging infrastructure as the Water District lower its debt service, targeting a more controlled and stable debt service ratio. This infrastructure replacement reviews are aimed at lowering our day to day cost as well as extending the life of our utilities infrastructure. Our hopes are to continue to move our utility forward, my eliminating the need for costlier emergency repairs due to failure to observe, review and questions infrastructure which has out lived it usefulness. Planned, budgeted and controlled replacement, is the only real option for a utility which plans to be a viable utility going forward.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Christian County Water District's General Manager at 1940 Dawson Springs Road, Hopkinsville, KY 42240.

FINANCIAL STATEMENTS

**CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016**

ASSETS	2017	Restated 2016
Current assets:		
Cash and cash equivalents	\$ 623,218	\$ 435,681
Accounts receivable and unbilled revenues	734,931	708,061
Allowance for uncollectible accounts	(184,373)	(202,459)
Inventory	204,458	168,148
Prepaid expenses	7,596	11,009
Total current assets	1,385,830	1,120,440
Restricted assets:		
Cash - customers' deposits	62,691	55,742
Cash - bond and interest redemption account	791,858	728,012
Cash - depreciation reserve account	1,124,790	1,105,776
Cash - bond reserve account	147,287	142,885
Investments - depreciation reserve	787,634	776,331
Total restricted assets	2,914,260	2,808,746
Capital assets not being depreciated:		
Land and land rights	118,491	118,491
Construction in progress	1,973,712	31,333
Capital assets being depreciated:		
Water supply and distribution system	14,040,836	14,524,704
Total capital assets	16,133,039	14,674,528
Other assets:		
Deposits	115	115
Deferred charges:		
Unamortized bond issuance costs	169,589	180,724
Total assets	20,602,833	18,784,553
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension amounts	387,801	273,236

See accompanying notes to financial statements

CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION, continued
DECEMBER 31, 2017 AND 2016

LIABILITIES	<u>2017</u>	<u>Restated 2016</u>
Current liabilities:		
Accounts payable and accrued expenses	<u>212,409</u>	<u>152,036</u>
Total current liabilities	<u>212,409</u>	<u>152,036</u>
Current liabilities payable from restricted assets:		
Customers' deposits	62,691	55,742
Interest payable	155,990	163,565
Notes payable - current	7,000	6,500
Long-term debt - current portion	<u>384,000</u>	<u>373,000</u>
Total payable from restricted assets	<u>609,681</u>	<u>598,807</u>
Noncurrent liabilities:		
Long-term debt (net of unamortized discounts and premiums)	7,452,229	7,842,029
Notes payable	1,613,950	337,000
Net pension liability	1,175,520	1,140,829
Compensated absences	<u>25,679</u>	<u>11,906</u>
Total noncurrent liabilities	<u>10,267,378</u>	<u>9,331,764</u>
Total liabilities	<u>11,089,468</u>	<u>10,082,607</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension amounts	<u>199,677</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	6,675,860	6,115,999
Restricted for customers' deposits	62,691	55,742
Restricted for debt service	939,145	870,897
Restricted for capital projects	1,912,424	1,882,107
Unrestricted	<u>111,369</u>	<u>50,437</u>
Total net position	<u>\$ 9,701,489</u>	<u>\$ 8,975,182</u>

See accompanying notes to financial statements

CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>Restated 2016</u>
Operating revenues:		
Water sales	\$ 3,387,212	\$ 3,211,884
Other revenues	115,346	95,185
	<u>3,502,558</u>	<u>3,307,069</u>
Operating expenses:		
Water purchased	1,197,850	1,168,173
Depreciation	581,555	582,860
Salaries	557,726	558,246
Maintenance and repairs	95,523	91,264
Insurance	202,257	188,954
Rental expense	2,610	1,470
Electricity for pumping	76,618	74,729
Professional services	37,340	31,315
Office supplies and expense	165,005	136,548
Operating materials and supplies	27,918	34,916
Payroll taxes and fringe benefits	273,984	243,301
Transportation expenses	32,477	24,735
	<u>3,250,863</u>	<u>3,136,511</u>
Operating income	<u>251,695</u>	<u>170,558</u>
Nonoperating revenue (expense):		
Interest and dividend income	40,605	37,895
Interest expense	(284,456)	(347,307)
Amortization of bond issuance costs	(11,135)	(49,434)
Unrealized gain (loss) on investments	25,431	5,675
	<u>(229,555)</u>	<u>(353,171)</u>
Income (loss) before grants and capital contributions	22,140	(182,613)
Grants and capital contributions	<u>704,167</u>	<u>78,851</u>
Change in net position, carried forward	<u>726,307</u>	<u>(103,762)</u>

See accompanying notes to financial statements

**CHRISTIAN COUNTY WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, continued
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	Restated 2016
Change in net position, brought forward	726,307	(103,762)
Net position, beginning of year	8,975,182	9,078,944
Net position, end of year	\$ 9,701,489	\$ 8,975,182

See accompanying notes to financial statements

**CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	Restated 2016
Cash flows from operating activities		
Receipts from customers and users	\$ 3,459,268	\$ 3,268,083
Cash payments to suppliers for goods and services	(1,807,997)	(1,723,090)
Cash payments to employees	(701,925)	(712,074)
Net cash provided by operating activities	949,346	832,919
Cash flows from capital and related financing activities		
Proceeds from grants	644,767	-
Purchases and construction of property and equipment	(2,040,066)	(127,734)
Proceeds from issuance of debt	1,283,950	2,215,442
Principal paid on debt	(379,500)	(2,606,000)
Tap-on fees	58,000	64,800
Contributed lines	1,400	14,051
Customer deposits	6,949	2,774
Interest expense	(292,031)	(341,670)
Net cash used in capital and related financing activities	(716,531)	(778,337)
Cash flows from investing activities		
Maturity of certificate of deposit	36,833	-
Interest income	12,100	10,855
Net cash used by investing activities	48,933	10,855
Net increase (decrease) in cash and cash equivalents	281,748	65,437
Cash at beginning of year	2,468,096	2,402,659
Cash at end of year	2,749,844	2,468,096
Less restricted cash		
Cash - customer deposits	(62,691)	(55,742)
Cash - bond and interest redemption	(791,858)	(728,012)
Cash - depreciation reserve	(1,124,790)	(1,105,776)
Cash - bond reserve	(147,287)	(142,885)
Total restricted cash	(2,126,626)	(2,032,415)
Cash and cash equivalents per statement of net position	\$ 623,218	\$ 435,681

See accompanying notes to financial statements

**CHRISTIAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS, continued
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	Restated 2016
Cash flows from operating activities		
Operating income	\$ 251,695	\$ 170,558
Adjustment to reconcile revenue to net cash provided by operating activities:		
Depreciation	581,555	582,860
(Increase) decrease in:		
Accounts receivable and unbilled revenues	(44,956)	(38,656)
Inventory	(36,310)	3,247
Prepaid expenses	3,413	8,204
Increase (decrease) in:		
Accounts payable	60,373	12,113
Accrued wages	-	(8,951)
Compensated absences	13,773	(4,574)
Deferred pension amounts	119,803	108,118
	<u>\$ 949,346</u>	<u>\$ 832,919</u>
Net cash provided by operating activities	<u>\$ 949,346</u>	<u>\$ 832,919</u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District was established to construct, operate, and maintain water service facilities, and to supply water to customers in Christian County, Kentucky. The District purchases its water supply from nearby city and water utilities. All of the water purchased by the District has been filtered and treated. The District operates and maintains the distribution system that supplies its end users.

There were no potential component units of the District to be evaluated for inclusion in the financial statements in accordance with standards established by Governmental Accounting Standards Board.

The more significant accounting policies of the Christian County Water District are as follows:

Basis of Presentation and Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America.

Proprietary Fund Type

The District is intended to be self-supporting through user charges. All of its revenues, expenses, assets, and liabilities, including fixed assets and long-term debt associated with the specific activity, are accounted for within its financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Income Taxes

The District is exempt from federal and state income tax under Section 501 of the Internal Revenue Code as the District is an adjunct of the government of Christian County, Kentucky.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the District considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Investments

Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned.

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Investments, continued

Investments are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Fixed income securities, real estate investment trusts (REIT's), derivatives, and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying currency. Investments, for which no national exchanges or pricing services exist, such as private equity assets, are valued at fair value by the investment partnership based on the valuation methodology outlined in the partnership agreement. Real estate may be valued by the manager or independent appraisers. Commingled assets that are not traded on a national exchange are valued by the commingled manager. The District performs due diligence reviews of the investment pricing, process, and infrastructure of private equity, commingled, and real estate investments to assure that the asset values provided by the managers are available.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expenses consist of external expenses directly related to the District's investment operations, as well as the internal administrative expenses associated with the District's investment program.

Restricted Assets

The restricted cash and investments accounts represent sinking funds for bond principal and interest payments as well as funds set aside for customer deposits and depreciation reserves.

Accounts Receivable

The district grants credit to its customers, all of whom are residents or businesses located in Christian County, Kentucky. The District's policy is to move accounts deemed uncollectible to an allowance for doubtful accounts at the end of each calendar year.

Inventory

Materials and supplies inventory (which consists of pipe, meters, brass fittings, and other supplies) is valued at weighted average cost utilizing the first-in, first-out (FIFO) method.

Capital Assets

Capital assets are stated at historical cost. Interest expense incurred during a construction period is capitalized. Depreciation rates based upon estimated useful lives have been applied on the straight-line method. The estimated useful lives are as follows:

Structures, mains, and accessories	33 - 50 years
Equipment, office equipment, pumping equipment, hydrants, and meters	5 - 20 years

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies, or real estate developers desiring services that require capital expenditures or connection to the District's system.

Impairment of Capital Assets

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized in the years ended December 31, 2017 and 2016.

Deferred Charges

Costs related to revenue bond issues are capitalized as deferred charges and amortized over the life of the bond issue.

Prepaid Expenses

Payments made that will benefit periods beyond December 31, 2017 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and the expenditure is reported in the year in which services are consumed.

Compensated Absences

Full-time permanent employees and part-time employees with six months' continuous service are granted vacation benefits in varying amounts to specified maximums depending on tenure with the District. A carryover of a maximum of eight vacation days is allowed. Sick leave accrues to full-time permanent employees to a specified maximum of 120 days. For employees with hire dates prior to January 1, 1987, accrued sick leave is paid in full to the 120-day maximum upon retirement or separation after twenty years of service. For employees with a hire date subsequent to January 1, 1987, upon retirement the employee may transfer accumulated sick leave up to 120 days to the employer for retirement credit only. The District shall purchase retirement service credit in an amount equal to the unused sick leave of said employee.

Customer Deposits

The District requires all new customers who do not have an existing account to pay a security deposit of \$50. This deposit is held on the account for a year, and then the account is reviewed for good standing. If the customer owns the property and the account is in good standing for a year, the security deposit is refunded with interest determined by the Kentucky Public Service Commission. If the customer is renting the property, when the customer moves out of the property, interest is added at the same rate as determined by the Kentucky Public Service Commission, the security deposit is then applied to the outstanding balance on the account. If the security deposit is more than the amount owed on the account, the remainder is refunded to the customer.

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Pensions

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources relate to the net pension liability described in Note 7.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources relate to the net pension liability described in Note 7.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net positions are classified in the following categories:

- *Net Investment in Capital Assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- *Restricted Net Position* – This amount is constricted by creditors, grantors, contributors, or laws or regulations of other governments.
- *Unrestricted Net Position* – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

The District’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenues and Expenses

Proprietary funds distinguish between operating and nonoperating items. Operating revenues generally result from providing services, producing, and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

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

Subsequent Events

Subsequent events have been evaluated through June 12, 2018, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

The carrying amounts of the District's deposits with financial institutions were \$2,749,844 and \$2,468,096, and the bank balances were \$2,814,915 and \$2,488,397 as of December 31, 2017 and 2016, respectively.

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District does not have a policy regarding custodial credit risk.

2017

The District's deposits were fully collateralized for all months of the year ending December 31, 2017.

2016

The District's deposits were fully collateralized for all months of the year ending December 31, 2016.

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. KRS 66.480 permits the District 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.

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 2 – CASH AND INVESTMENTS, continued

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. For the purpose of implementing Governmental Accounting Standards Statement 9, the District has defined cash and cash equivalents as cash, certificates of deposit, and repurchase agreements with an original maturity when purchased of three months or less.

The District's cash and investments (unrestricted and restricted) at year-end are presented below.

	<u>2017</u>	<u>2016</u>
Cash	\$ 2,748,844	\$ 2,467,121
Investments	787,634	776,331
Petty cash	1,000	975

Fair Value Measurement

The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three tiered fair value hierarchy, as follows:

- Level 1 – Quoted prices for identical investments in active markets;
- Level 2 – Observable inputs other than quoted market prices; and,
- Level 3 – Unobservable inputs

	<u>Fair Value Measurements Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2017			
Mortgage-backed securities	\$ 694,218	\$ -	\$ -
Money market funds	3,541	-	-
Certificates of deposit	89,875	-	-
Total investments	<u>\$ 787,634</u>	<u>\$ -</u>	<u>\$ -</u>
2016			
Mortgage-backed securities	\$ 643,794	\$ -	\$ -
Money market funds	8,257	-	-
Certificates of deposit	124,280	-	-
Total investments	<u>\$ 776,331</u>	<u>\$ -</u>	<u>\$ -</u>

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 3 – CAPITAL ASSETS

The water supply and distribution system is classified at December 31, 2017 as follows:

	<u>12/31/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/17</u>
Capital assets not depreciated:				
Land and land rights	\$ 118,491	\$ -	\$ -	\$ 118,491
Construction work in progress	31,333	1,942,379	-	1,973,712
Total capital assets not depreciated	<u>149,824</u>	<u>1,942,379</u>	<u>-</u>	<u>2,092,203</u>
Capital assets depreciated:				
Structures and improvements	942,361	-	-	942,361
Supply mains	33,672	-	-	33,672
Pumping equipment	926,702	-	-	926,702
Water treatment equipment	10,700	-	-	10,700
Distribution reservoirs	3,033,988	-	-	3,033,988
Transmission mains	15,646,748	20,076	-	15,666,824
Services	247,664	-	-	247,664
Meters	1,216,493	38,341	-	1,254,834
Hydrants	822,439	-	-	822,439
Office equipment	150,615	-	-	150,615
Vehicles	257,974	-	-	257,974
Tools and miscellaneous	437,632	39,270	-	476,902
Total capital assets depreciated	23,726,988	97,687	-	23,824,675
Less: Accumulated depreciation	<u>(9,202,284)</u>	<u>(581,555)</u>	<u>-</u>	<u>(9,783,839)</u>
Total capital assets depreciated, net	<u>14,524,704</u>	<u>(483,868)</u>	<u>-</u>	<u>14,040,836</u>
Total capital assets	<u>\$ 14,674,528</u>	<u>\$ 1,458,511</u>	<u>\$ -</u>	<u>\$ 16,133,039</u>

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 3 – CAPITAL ASSETS, continued

Construction in progress amounted to \$1,973,712 and \$31,333 at December 31, 2017 and 2016, respectively. The December 31, 2017 and 2016 balances are represented by the following:

	<u>2017</u>	<u>2016</u>
Road line extensions	\$ 1,965,712	\$ 23,333
Future projects research	<u>8,000</u>	<u>8,000</u>
	<u><u>\$ 1,973,712</u></u>	<u><u>\$ 31,333</u></u>

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31 were as follows:

	<u>2017</u>	<u>2016</u>
Customer accounts receivable	\$ 220,122	\$ 218,586
Unbilled revenues	308,017	279,741
Accounts receivable arrears	<u>206,792</u>	<u>209,734</u>
	<u><u>\$ 734,931</u></u>	<u><u>\$ 708,061</u></u>

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 5 – LONG-TERM DEBT

1. Revenue Bonds

The District has issued bonds pledging income derived from operations to pay debt service. Revenue bonds outstanding at December 31, 2017 and 2016 are as follows:

<u>Name/Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>	
		<u>2017</u>	<u>2016</u>
Kentucky Infrastructure Authority Revenue Bonds Series 1993 (refinance original system bonds), principal due in annual installments through January 1, 2021	2.50% - 5.75%	\$ 27,500	\$ 65,000
Waterworks Revenue Bonds Series 2008 (expansion of lines and improvements), principal due in annual installments through January 1, 2047	4.38%	1,692,000	1,717,500
Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds Series 2012C, principal due in monthly installments through January 1, 2038	2.15% - 4.15%	2,575,000	2,665,000
Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds Series 2013B, principal due in monthly installments through January 1, 2029	2.30%-3.30%	1,370,000	1,470,000
Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds, Series 2016B (refinance original system bonds), principal due in monthly installments through January 1, 2030	2.25%-3.25%	<u>2,105,000</u>	<u>2,225,000</u>
		<u>\$ 7,769,500</u>	<u>\$ 8,142,500</u>

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 5 – LONG-TERM DEBT, continued

Revenue Bond debt service requirements to maturity, including \$3,315,792 of interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2018	\$ 384,000	\$ 271,617	\$ 655,617
2019	373,000	259,321	632,321
2020	384,000	247,825	631,825
2021	405,500	236,600	642,100
2022	406,500	225,149	631,649
2023-2027	2,250,000	931,886	3,181,886
2028-2032	1,673,000	555,575	2,228,575
2033-2037	916,000	321,833	1,237,833
2038-2042	453,000	175,453	628,453
2043-2047	424,500	85,719	510,219
2048	100,000	4,814	104,814
Total	<u>\$ 7,769,500</u>	<u>\$ 3,315,792</u>	<u>\$ 11,085,292</u>

Bond covenants for the District require the maintenance of a Bond Sinking Fund. Monthly deposits are to be made to this fund for payment of interest and principal of outstanding bonds, a sum equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the bonds, plus a sum equal to one-twelfth (1/12) of the principal of any bonds maturing on the next succeeding principal payment date. The District was in compliance with this requirement at December 31, 2017 and 2016.

On May 12, 2016, the District issued \$2,225,000 in KRWFC Flexible Term Program Series 2016B bonds with interest rates of 2.25% - 3.25%. The District issued the bonds to refund \$2,255,000 of outstanding Series 2005C with interest rates of 4.03% - 4.53% with a call premium of \$47,766. The District contributed \$94,230 in cash (\$40,060 from reserves and \$54,170 from existing debt service funds). The net proceeds of \$2,309,508 (after payment of \$57,488 in underwriting fees and issuance costs) were transferred to an escrow agent to provide future debt service payments. As a result, the refunded bonds were considered to be defeased, and the liability was removed from the financial statements. The refund reduced total debt service payments over the next 14 years by \$340,545 with a net present value saving of 10.236%. Payments of principal and interest are paid monthly with the last principal payment scheduled for December 31, 2030.

The District has received \$1,283,950 under Form RD 1940-1 interim financing for the Phase VIII project. The loan was approved for \$1,800,000. The interim interest rate is 2.75%. As of the audit report date, the project is still in progress and a date has not been set for permanent financing.

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 5 – LONG-TERM DEBT, continued

2. Other Long-term Debt

A summary of other long-term debt as of December 31, 2017 and 2016 follows:

	<u>Interest Rate</u>	<u>Amount 2017</u>	<u>2016</u>
USDA Rural Development advance, principal due in annual installments through 2043, secured by utility revenues	4.375%	\$ 337,000	\$ 343,500

Other long-term debt service requirements to maturity, including interest of \$236,040, are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 7,000	\$ 14,744	\$ 21,744
2019	7,500	14,438	21,938
2020	7,500	14,109	21,609
2021	8,000	13,781	21,781
2022	8,500	13,431	21,931
2023-2027	47,500	61,360	108,860
2028-2032	60,000	50,650	110,650
2033-2037	75,000	35,525	110,525
2038-2042	94,000	17,521	111,521
2043	22,000	481	22,481
	<u>\$ 337,000</u>	<u>\$ 236,040</u>	<u>\$ 573,040</u>

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 5 – LONG-TERM DEBT, continued

A summary of changes in long-term debt for the year ended December 31, 2017 is listed as follows:

Bonds	Balance 12/31/16	Additions	Reductions	Balance 12/31/17
Series 1993	\$ 65,000	\$ -	\$ 37,500	\$ 27,500
Series 2008	1,717,500	-	25,500	1,692,000
Series 2012C	2,665,000	-	90,000	2,575,000
Series 2013B	1,470,000	-	100,000	1,370,000
Series 2016B	2,225,000	-	120,000	2,105,000
	<u>8,142,500</u>	<u>-</u>	<u>373,000</u>	<u>7,769,500</u>
<u>Other Long-Term Debt</u>				
Rural Development advance	343,500	-	6,500	337,000
Rural Development interim	-	1,283,950	-	1,283,950
Total debt	<u>8,486,000</u>	<u>1,283,950</u>	<u>379,500</u>	<u>9,390,450</u>
<u>Discounts/Premiums</u>				
Unamortized premiums	72,529	-	5,800	66,729
	<u>72,529</u>	<u>-</u>	<u>5,800</u>	<u>66,729</u>
Total debt, net of unamortized discounts and premiums	<u>\$ 8,558,529</u>	<u>\$ 1,283,950</u>	<u>\$ 385,300</u>	<u>\$ 9,457,179</u>

NOTE 6 – DEFERRED CHARGES

Legal and financial advisory fees, printing costs and other expenses associated with the issuance of Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds Series 2005C and 2005C refunding, 2012C, 2013B, and 2016B are being amortized on the straight-line method over the term of the bonds. Amortization expense charged to non-operating expense was \$11,135 and \$48,605 for the years ending December 31, 2017 and 2016, respectively.

The discount included in interest expense and associated with the Series 2005C issue refunding was \$-0- for the year ending December 31, 2017 and \$21,047 for the year ending December 31, 2016. The premiums associated with the Series 1993, Series 2012C, Series 2013B, and Series 2016B issues are being amortized on the straight-line method over the term of the bonds. Amortization of the premiums included in interest income was \$5,800 and \$4,236 for the years ending December 31, 2017 and 2016.

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 7 – PENSION PLAN

The District’s employees are provided a pension plan through the County Employees Retirement System.

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

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

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

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years’ service or 65 years old At least 5 years’ service and 55 years old At least 25 years’ service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years’ service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years’ service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years’ service and 65 years old Or age 57+ and sum of service years plus age equal 87 Not available

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

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

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

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 7 – PENSION PLAN, continued

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

At December 31, 2017 and 2016, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability:

2017	2016
\$ 1,175,520	\$ 1,140,829

The net pension liability of the plan was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At December 31, 2017 and 2016, the District's proportion was .020083% and .023170%, respectively.

For the years ended December 31, 2017 and 2016, the District recognized pension expense of \$217,680 and \$200,102, respectively, related to CERS. At December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		Restated 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,458	\$ 29,840	\$ 4,981	\$ -
Change of assumptions	216,915	-	60,435	-
Net differences between projected and actual earnings on pension plan investments	93,100	78,560	107,250	-
Changes in proportion and difference between Utility contributions and proportionate share of contributions	27,655	91,277	54,497	-
Utility contributions subsequent to the measurement date	48,673	-	46,073	-
Total	\$ 387,801	\$ 199,677	\$ 273,236	\$ -

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 7 – PENSION PLAN, continued

The amounts of \$48,673 and \$46,073 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 years ended December 31, 2017 and 2016. Amounts reported as deferred inflows and outflows of resources due to the net difference projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

Year Ended December 31, 2017	Increase (Decrease) to Pension Expense
2018	\$ 74,632
2019	58,734
2020	21,179
2021	(15,094)
	<u>\$ 139,451</u>
Year Ended December 31, 2016	
2017	\$ 68,202
2018	68,172
2019	50,380
2020	40,409
	<u>227,163</u>

Actuarial assumptions – The total pension liability in the June 30, 2017 and 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Measurement Period	
	2017	2016
Inflation	3.25%	3.25%
Projected salary increases, average, including inflation	4.00%	4.00%
Investment rate of return, net of plan investment expense, including inflation	7.50%	7.50%

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 7 – PENSION PLAN, continued

For the June 30, 2017 and 2016 valuation, the mortality table used for active members is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% of 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.

The long-term expected return on plan 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 December 3, 2015. The prior year analysis used for the June 30, 2015 audit of the System, was performed for the period covering fiscal years 2005 through 2008, and 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, 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 by 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 timeframe. 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 arithmetical real rates of return for each major asset class are summarized in the following tables.

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 7 – PENSION PLAN, continued

Measurement Period 2017	Target	Long-Term
Asset Class	Allocation	Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real return (diversified inflation strategies)	10.00%	6.13%
Real estate	5.00%	7.63%
Absolute return (diversified hedge funds)	10.00%	5.63%
Private equity	10.00%	8.25%
Cash equivalent	2.00%	1.88%
Total	<u>100%</u>	

Measurement Period 2016	Target	Long-Term
Asset Class	Allocation	Expected Real Rate of Return
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	2%	(0.25%)
Total	<u>100%</u>	

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 7 – PENSION PLAN, continued

Discount rate – For CERS, the discount rate used to measure the total pension liability was 7.50% for 2017 and 7.50% for 2016. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50% for 2017 and 7.50% for 2016. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

2017	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
Utility's proportionate share of net pension liability	\$ 1,482,584	\$ 1,175,520	\$ 918,662

2016	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
Utility's proportionate share of net pension liability	\$ 1,421,624	\$ 1,140,429	\$ 900,082

Payable to the Pension Plan

At December 31, 2017 and 2016, the District reported a payable of \$7,227 and \$7,606, respectively for the outstanding amount contributions required for the years then ended. These amounts represent the employee withholding and employer match for the last month of the years then ended. The payable includes both pension and insurance contributions.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 61.702 requires CERS to provide post-retirement healthcare benefits to eligible members and dependents. The CERS medical insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the Board of Trustees of Kentucky Retirement Systems, the Kentucky Department of Employee Insurance, and the General Assembly.

Funding Policy – The post-retirement healthcare provided by CERS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help with the medical expenses of the plan.

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these types of risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 – GRANTS AND CONTRIBUTIONS

Grants and contributions for the year ending December 31 were as follows:

	2017	2016
State grants	\$ -	\$ -
Federal grants	644,767	-
Tap-on fees	58,000	64,800
Contributed lines	1,400	14,051
	\$ 704,167	\$ 78,851

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Christian County Water District Board of Commissioners entered into an agreement with the District's General Manager regarding payment for accumulated compensatory time. The District agreed to pay the General Manager the amount of \$36,000 (non-interest bearing) as payment in full for compensatory time earned during the General Manager's employment with the District through the date of the agreement. This pay out, to be paid in twelve annual installments of \$3,000 each, began 2007 with the final payment due 2018. The balance of this commitment at December 31, 2017 and 2016, included in the liability for compensated absences, is \$3,000 and \$6,000, respectively.

NOTE 11 – RECENTLY ISSUED PRONOUNCEMENTS

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. This statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The District is evaluating the requirements of this statement.

**CHRISTIAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 12 – REISSUED FINANCIAL STATEMENTS

During the analysis of the pension plan's audit report for the year ended June 30, 2017, it was discovered that the transactions associated with the pension plan as reported by Kentucky Retirement Systems in its reports for the fiscal year ended June 30, 2016, had been misinterpreted and presented incorrectly in the District's audit report for the year ended December 31, 2016 (audit report dated March 27, 2017). To correct this misinterpretation of the transactions associated with the deferred outflow related to the District's pension plan, the restatement of prior period as required by GASB 68, the audit report on the District's Comparative Financial Statements for the year ending December 31, 2016 has been reissued concurrently with the audit report for the year ended December 31, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

CHRISTIAN COUNTY WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
County Employees Retirement System

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
District's portion of the net pension liability (asset)	0.020083%	0.023170%	0.02178%
District's proportionate share of the net pension liability (asset)	\$ 1,175,520	\$ 1,140,829	\$ 954,925
State's proportionate share of the net pension liability (asset) associated with the Utility	-	-	-
Total	<u>\$ 1,175,520</u>	<u>\$ 1,140,829</u>	<u>\$ 954,925</u>
District's covered-employee payroll	\$ 564,185	\$ 578,024	\$ 525,804
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	208.36%	197.37%	181.61%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%

*Calculations are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and Pension Amounts by Employer for the fiscal years ended June 30, shown. District payroll is reported for its' covered calendar years ending December 31, 2015 through 2017.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**CHRISTIAN COUNTY WATER DISTRICT
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
County Employees Retirement System**

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Contractually required contribution	\$ 94,130	\$ 91,983	\$ 91,179
Contributions in relation to the contractually required contribution	<u>(94,130)</u>	<u>(91,983)</u>	<u>(91,179)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 564,185	\$ 578,024	\$ 525,804
Contributions as a percentage of covered employee payroll	18.68%/ 19.18%	17.06%/ 18.68%	17.67%/ 17.06%

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

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**CHRISTIAN COUNTY WATER DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN
DECEMBER 31, 2017**

Changes of assumptions

There were no changes of benefit terms. However, the following changes were adopted by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

INTERNAL CONTROL & COMPLIANCE

**CHRISTIAN COUNTY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Loans</u>	<u>Federal Disbursements/ Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Rural water and waste loan program			
Loans beginning balance	10.760	\$ 2,029,000	\$2,029,000
New loans	10.760*	1,283,950	1,283,950
<u>Department of Housing and Urban Development</u>			
Community Development Block Grant	14.228*	-	644,767
<u>Department of Homeland Security</u>			
Disaster Grants	97.036	-	21,037
		<u>\$ 3,312,950</u>	<u>\$3,978,754</u>

*Major Program

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award program presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

NOTE B – LOANS

The District was awarded a loan from the United States Department of Agriculture in the amount of \$1,800,000. The District began making draws on this loan and expending the funds in July, 2017. The balance of the loan at December 31, 2017 was \$1,283,950.

The District was awarded a loan from Waterworks Revenue Bonds Series 2008 in the amount of \$1,850,000. The repayment schedule for this loan is located in the Notes to the Financial Statements under Note 5. The balance of the loan at December 31, 2017 was \$1,692,000.

The District was awarded a loan from United States Department of Agriculture Rural Development in the amount of \$400,000. The repayment schedule for this loan is located in the Notes to the Financial Statements under Note 5. The balance of the loan at December 31, 2017 was \$337,000.

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CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' 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**

Commissioners
Christian County Water District
Hopkinsville, 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 Christian County Water District as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Christian County Water District's basic financial statements, and have issued our report thereon dated June 12, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Christian County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Christian County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Christian 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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2017-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Christian County 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*.

Christian County Water District's Response to Finding

Christian County Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Christian 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DUGUID, GENTRY & ASSOCIATES, PSC

Duguid, Gentry & Associates, PSC

Certified Public Accountants
Hopkinsville, Kentucky

June 12, 2018

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Commissioners
Christian County Water District
Hopkinsville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Christian County Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Christian County Water District's major federal program for the year ended December 31, 2017. Christian County Water District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Christian County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Christian County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Christian County Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Christian County Water District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of Christian County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Christian County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Christian County Water District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DUGUID, GENTRY & ASSOCIATES, PSC

Duguid, Gentry & Associates, PSC

Certified Public Accountants
Hopkinsville, Kentucky

June 12, 2018

**CHRISTIAN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___yes X_no

Significant deficiency(ies) identified? X_yes ___none reported

Noncompliance material to financial statements noted? ___yes X_no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___yes X_no

Significant deficiency(ies) identified? ___yes X_none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) ___yes X_no

Identification of major federal programs:

<u>Program Title</u>	<u>CFDA Number</u>
Community Development Block Grant	14.228
Rural Water & Waste Loan Program	10.760

Dollar threshold to distinguish
Between type A and type B programs: \$750,000

Auditee qualified as a low risk auditee? X_yes ___no

**CHRISTIAN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINDINGS – FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

2017-001 Financial Reporting

Condition: There was inadequate design of internal controls over the preparation of the financial statements of the District.

Criteria: Statement on Auditing Standards (SAS 115) states that a control deficiency exists when an entity does not have controls in place which would prevent or detect a misstatement in the financial statements.

Cause: Available funds do not allow for such staffing.

Effect: There was an increased risk that controls in place might not prevent, or detect and correct, misstatements in the financial statements.

Recommendation: The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements

Views of Responsible Officials and Planned Corrective Actions: Management outsourced the preparation of their financial statements and the related notes to Duguid, Gentry & Associates, PSC. Management maintained responsibility for the financial statements and related notes and for the establishment of controls over the financial reporting process and acknowledged that outsourcing preparation of the financial statements and related notes does not relieve management of the responsibility for the financial statements. Management provided oversight for the financial statement preparation service by designating an individual within senior management who possesses suitable technical skill, knowledge, and experience sufficient to (a) understand the financial statement preparation service enough to be able to provide general direction for the service; (b) understand the key issues the auditors identify; (c) make any required management decisions; and (d) evaluate the adequacy of, and accept responsibility for, the results of the auditors' work.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None reported

**CHRISTIAN COUNTY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017**

FINDINGS – FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

2016-001 Financial Reporting

Condition: There was inadequate design of internal controls over the preparation of the financial statements of the District.

Recommendation: The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

Current Status: The finding was repeated for the fiscal year ending December 31, 2017.