

**CHRISTIAN COUNTY WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2018 AND 2017**

# CHRISTIAN COUNTY WATER DISTRICT

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**DUGUID, GENTRY & ASSOCIATES, P.S.C.**  
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, 2018 and 2017, 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 3, 2019.

**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 (2018-001).

## **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, 2018 and 2017, 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.

## **Emphasis of Matter**

As discussed in Note 11 to the financial statements, during the year ended December 31, 2018, Christian County Water District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)*, which resulted in a restatement of the District's January 1, 2018 net position in the amount of (\$403,737). Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension and postemployment benefit schedules on pages 4-14 and 50-55 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 3, 2019, 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 3, 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CHRISTIAN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018**

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, 2018. 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 \$30,876 or 0.32% from \$9,701,489 to \$9,732,365 when compared to the previous year.
- Operating revenues increased by \$133,383 or 3.81% from \$3,502,558 to \$3,635,941 when compared to the previous year.
- Operating expenses (excluding depreciation) increased by \$178,135 or 6.67% from \$2,669,308 to \$2,847,443 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, 2018**

**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, 2018

Over the past year, total assets and deferred outflows of the District increased by \$680,842 while total liabilities and deferred inflows increased by \$649,966. And, for the current period, the operating income of the District totaled \$207,529.

**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 \$30,876 (net of a prior period adjustment in the amount of (\$403,737) for GASB 75 implementation) or 0.32%.

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, 2018**

**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, \$7,040,772 or 72.34% of net position represents investment in plant assets which is the lifeblood to the provision of water services. Another portion of net position, \$3,047,038 or 31.31% represents funds set aside for payment of debt, refunding of customer deposits, and capital purchases.

	2018	2017	Change in FY 2017 to FY 2018	
			Amount	Percent
Current and other assets	\$ 4,623,051	\$ 4,469,794	\$ 153,257	3.43%
Capital assets, net	16,617,680	16,133,039	484,641	3.00%
<b>Total assets</b>	<b>21,240,731</b>	<b>20,602,833</b>	<b>637,898</b>	<b>3.10%</b>
Deferred outflows of resources	430,745	387,801	42,944	11.07%
Long-term debt	11,260,186	10,632,699	627,487	5.90%
Current and other liabilities	456,761	456,769	(8)	0.00%
<b>Total liabilities</b>	<b>11,716,947</b>	<b>11,089,468</b>	<b>627,479</b>	<b>5.66%</b>
Deferred inflows of resources	222,164	199,677	22,487	11.26%
Net investment in capital assets	7,040,772	6,675,860	364,912	5.47%
Restricted	3,047,038	2,851,569	195,469	6.85%
Unrestricted	(355,445)	174,060	(529,505)	-304.21%
<b>Total net position</b>	<b>\$ 9,732,365</b>	<b>\$ 9,701,489</b>	<b>\$ 30,876</b>	<b>0.32%</b>

**CHRISTIAN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
DECEMBER 31, 2018**

**TABLE 2  
Components of Net Position**

			Change in FY 2017 to FY 2018	
	2018	2017	Amount	Percent
Net investment in capital assets	\$ 7,040,772	\$ 6,675,860	\$ 364,912	5.47%
Restricted for debt service	1,087,566	939,145	148,421	15.80%
Restricted for capital projects	1,959,472	1,912,424	47,048	2.46%
Unrestricted	(355,445)	174,060	(529,505)	-304.21%
	<u>\$ 9,732,365</u>	<u>\$ 9,701,489</u>	<u>\$ 30,876</u>	0.32%

For the year ended December 31, 2018, *Net Position Invested in Capital Assets, Net of Related Debt* increased by \$364,912 or 5.47% 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 \$119,729, purchases and construction of property and equipment of \$1,065,610 and additions to accumulated depreciation of \$580,969.

In comparing the total amount to the prior year's balance of *Net Position Restricted for Debt Service*, there was an increase of \$148,421 or 15.80%. *Net Position Restricted for Capital Projects* increased \$47,048 or 2.46%.

Compared to the previous year's balance, there was a decrease in *Unrestricted Net Position* of (\$529,505) or -304.21%. Various factors were involved in this decrease, 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, 2018**

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, 2018 and 2017 balances by asset classification is shown in the table below.

**TABLE 3  
Comparison of Current Assets**

	2018	2017	Change in FY 2017 to FY 2018	
			Amount	Percent
Cash and cash equivalents	\$ 652,350	\$ 623,218	\$ 29,132	4.67%
Accounts receivable and unbilled revenues	750,810	734,931	15,879	2.16%
Allowance for uncollectible accounts	(222,681)	(184,373)	(38,308)	20.78%
Inventory	165,326	204,458	(39,132)	-19.14%
Prepaid expenses	7,599	7,596	3	0.04%
	<u>\$ 1,353,404</u>	<u>\$ 1,385,830</u>	<u>\$ (32,426)</u>	-2.34%

**CHRISTIAN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
DECEMBER 31, 2018**

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, 2018 and 2017 are compared to major classification. As indicated by the tabular information below, total noncurrent assets increased by \$196,818 or 6.75% compared to the previous year.

**TABLE 4  
Comparison of Noncurrent Assets**

	2018	2017	Change in FY 2017 to FY 2018	
			Amount	Percent
Cash - customers' deposits	\$ 64,040	\$ 62,691	\$ 1,349	2.15%
Cash - bond and interest redemption	940,552	791,858	148,694	18.78%
Cash - depreciation reserve	1,158,492	1,124,790	33,702	3.00%
Cash - bond reserve	147,014	147,287	(273)	-0.19%
Investments - depreciation reserve	800,980	787,634	13,346	1.69%
	<u>\$ 3,111,078</u>	<u>\$ 2,914,260</u>	<u>\$ 196,818</u>	6.75%

**CHRISTIAN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
DECEMBER 31, 2018**

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**

	2018	2017	Change in FY 2017 to FY 2018	
			Amount	Percent
Accounts payable and accrued expenses	<u>\$ 226,361</u>	<u>\$ 212,409</u>	<u>\$ 13,952</u>	6.57%
	<u><u>\$ 226,361</u></u>	<u><u>\$ 212,409</u></u>	<u><u>\$ 13,952</u></u>	6.57%

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

**CHRISTIAN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
DECEMBER 31, 2018**

**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, 2018 was \$30,876.

**TABLE 6  
Condensed Statements of Revenues, Expenses and Changes in Net Position**

	2018	2017	Change in FY 2017 to FY 2018	
			Amount	Percent
Operating revenues	\$ 3,635,941	\$ 3,502,558	\$ 133,383	3.81%
Non-operating revenues	51,312	40,605	10,707	26.37%
Total revenues	3,687,253	3,543,163	144,090	4.07%
Depreciation expense	580,969	581,555	(586)	-0.10%
Operating expenses	2,847,443	2,669,308	178,135	6.67%
Non-operating expenses	358,848	270,160	88,688	32.83%
Total expenses	3,787,260	3,521,023	266,237	7.56%
Income (loss) before grants and capital contributions	(100,007)	22,140	(122,147)	-551.71%
Grants and capital contributions	534,620	704,167	(169,547)	-24.08%
Changes in net position	434,613	726,307	(291,694)	40.16%
Beginning net position	9,701,489	8,975,182	726,307	8.09%
Implementation of GASB 75 (Note 8)	(403,737)	-	(403,737)	-100.00%
Beginning net position, restated	9,297,752	8,975,182	322,570	3.59%
Ending net position	\$ 9,732,365	\$ 9,701,489	\$ 30,876	0.32%

**Analysis of Revenue**

For the 2018 fiscal year, the *Operating Revenues* of the system were \$3,635,941. This amount represented an increase of \$133,383 or 3.81% compared with the previous year's total.

Included in *Non-Operating Revenues* is interest income of \$51,312.

**CHRISTIAN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
DECEMBER 31, 2018**

Analysis of Expenses

The Total *Operating Expenses* for FY 2018 were \$3,428,412. The amount represents an increase of \$177,549 or 5.46% more than the prior fiscal year of \$3,250,863. The major categories of *Operating Expenses* are shown in the chart below.

**TABLE 7  
Comparison of Operating Expenses**

	2018	2017	Change in FY 2017 to FY 2018	
			Amount	Percent
Water purchased	\$ 1,272,092	\$ 1,197,850	\$ 74,242	6.20%
Depreciation	580,969	581,555	(586)	-0.10%
Salaries	593,025	557,726	35,299	6.33%
Maintenance and repairs	128,480	95,523	32,957	34.50%
Insurance	178,753	202,257	(23,504)	-11.62%
Rental expense	444	2,610	(2,166)	-82.99%
Electricity for pumping	93,443	76,618	16,825	21.96%
Professional services	44,988	37,340	7,648	20.48%
Office supplies and expense	162,469	165,005	(2,536)	-1.54%
Operating materials and supplies	88,360	27,918	60,442	216.50%
Payroll taxes and fringe benefits	221,975	273,984	(52,009)	-18.98%
Transportation expenses	63,414	32,477	30,937	95.26%
	<u>\$ 3,428,412</u>	<u>\$ 3,250,863</u>	<u>\$ 177,549</u>	5.46%

As indicated by the comparative information presented above, water purchases increased by \$74,242 or 6.20% compared to the prior year. This increase can be contributed to the continuation of the Phase VIII project. Increases in water cost for construction and restoration periods are to be expected.

**CHRISTIAN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
DECEMBER 31, 2018**

**Capital Assets**

Christian County Water District's investment in capital assets as of December 31, 2018 was \$16,617,680 (net of accumulated depreciation), as shown in the following table.

**TABLE 8  
Capital Assets**

	<u>2018</u>	<u>2017</u>
Capital assets not depreciated:		
Land and land rights	\$ 118,491	\$ 118,491
Construction in progress	<u>2,940,667</u>	<u>1,973,712</u>
Total nondepreciable historical cost	<u>3,059,158</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
Treatment equipment	10,700	10,700
Reservoirs	3,033,988	3,033,988
Transmission mains	15,690,847	15,666,824
Services	247,664	247,664
Meters	1,294,466	1,254,834
Hydrants	822,439	822,439
Office equipment	150,615	150,615
Vehicles	286,123	257,974
Tools and miscellaneous	<u>483,753</u>	<u>476,902</u>
Total depreciable historical cost	<u>23,923,330</u>	<u>23,824,675</u>
Total capital assets	26,982,488	25,916,878
Less accumulated depreciation	<u>(10,364,808)</u>	<u>(9,783,839)</u>
Total capital assets, net	<u>\$ 16,617,680</u>	<u>\$ 16,133,039</u>



**CHRISTIAN COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
DECEMBER 31, 2018**

As of December 31, 2018, the District's investment in net capital assets totaled \$16,617,680 which is an increase of \$484,641 over the net capital asset balance at December 31, 2017. Capital assets had additions of \$1,065,610 offset by additions to accumulated depreciation of \$580,969.

**Long-term Debt**

As of December 31, 2018, the District had \$9,576,908 (net of premium and discounts) in outstanding debt compared to \$9,457,179 as of December 31, 2017. Long-term debt activity consisted of a reduction of principal of \$2,077,287. Other long-term debt increased \$2,197,016 with the issuance of Rural Development interim financing and Series 2018 bonds.

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 was due to a proposed water line replacement project Phase VIII. This project replaces approximately 38 miles of aging infrastructure. The funding sources for this project are Christian County Water District, USDA Rural Development and a Community Development Block Grant (CDBG). Construction started began in June 2017 and continues to be in process at December 31, 2018.

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 lowers its debt service, targeting a more controlled and stable debt service ratio. These infrastructure replacement reviews are aimed at lowering our day to day costs as well as extending the life of our utility's infrastructure. Our hopes are to continue to move our utility forward, by eliminating the need for costlier emergency repairs due to failure to observe, review and question infrastructure which has surpassed its useful life. 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, 2018 AND 2017**

<b>ASSETS</b>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 652,350	\$ 623,218
Accounts receivable and unbilled revenues	750,810	734,931
Allowance for uncollectible accounts	(222,681)	(184,373)
Inventory	165,326	204,458
Prepaid expenses	<u>7,599</u>	<u>7,596</u>
Total current assets	<u>1,353,404</u>	<u>1,385,830</u>
Restricted assets:		
Cash - customers' deposits	64,040	62,691
Cash - bond and interest redemption account	940,552	791,858
Cash - depreciation reserve account	1,158,492	1,124,790
Cash - bond reserve account	147,014	147,287
Investments - depreciation reserve	<u>800,980</u>	<u>787,634</u>
Total restricted assets	<u>3,111,078</u>	<u>2,914,260</u>
Capital assets not being depreciated:		
Land and land rights	118,491	118,491
Construction in progress	2,940,667	1,973,712
Capital assets being depreciated:		
Water supply and distribution system	<u>13,558,522</u>	<u>14,040,836</u>
Total capital assets	<u>16,617,680</u>	<u>16,133,039</u>
Other assets:		
Deposits	<u>115</u>	<u>115</u>
Deferred charges:		
Unamortized bond issuance costs	<u>158,454</u>	<u>169,589</u>
Total assets	<u>21,240,731</u>	<u>20,602,833</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amounts from pension and other postemployment benefits	<u>430,745</u>	<u>387,801</u>

See accompanying notes to the financial statements

**CHRISTIAN COUNTY WATER DISTRICT  
STATEMENTS OF NET POSITION, continued  
DECEMBER 31, 2018 AND 2017**

<b>LIABILITIES</b>	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable and accrued expenses	<u>226,361</u>	<u>212,409</u>
Total current liabilities	<u>226,361</u>	<u>212,409</u>
Current liabilities payable from restricted assets:		
Customers' deposits	64,040	62,691
Interest payable	158,774	155,990
Notes payable - current	7,500	7,000
Long-term debt - current portion	<u>400,500</u>	<u>384,000</u>
Total payable from restricted assets	<u>630,814</u>	<u>609,681</u>
Noncurrent liabilities:		
Long-term debt (net of unamortized discounts and premiums)	8,846,408	7,452,229
Notes payable	322,500	1,613,950
Net pension and other postemployment benefit liabilities	1,683,278	1,175,520
Compensated absences	<u>7,586</u>	<u>25,679</u>
Total noncurrent liabilities	<u>10,859,772</u>	<u>10,267,378</u>
Total liabilities	<u>11,716,947</u>	<u>11,089,468</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred amounts from pension and other postemployment benefits	<u>222,164</u>	<u>199,677</u>
<b>NET POSITION</b>		
Net investment in capital assets	7,040,772	6,675,860
Restricted for debt service	1,087,566	939,145
Restricted for capital projects	1,959,472	1,912,424
Unrestricted	<u>(355,445)</u>	<u>174,060</u>
Total net position	<u>\$ 9,732,365</u>	<u>\$ 9,701,489</u>

See accompanying notes to the financial statements

**CHRISTIAN COUNTY WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Water sales	\$ 3,537,593	\$ 3,387,212
Other revenues	<u>98,348</u>	<u>115,346</u>
	<u>3,635,941</u>	<u>3,502,558</u>
Operating expenses:		
Water purchased	1,272,092	1,197,850
Depreciation	580,969	581,555
Salaries	593,025	557,726
Maintenance and repairs	128,480	95,523
Insurance	178,753	202,257
Rental expense	444	2,610
Electricity for pumping	93,443	76,618
Professional services	44,988	37,340
Office supplies and expense	162,469	165,005
Operating materials and supplies	88,360	27,918
Payroll taxes and fringe benefits	221,975	273,984
Transportation expenses	<u>63,414</u>	<u>32,477</u>
	<u>3,428,412</u>	<u>3,250,863</u>
Operating income	<u>207,529</u>	<u>251,695</u>
Nonoperating revenue (expense):		
Interest and dividend income	51,312	40,605
Interest expense	(336,400)	(284,456)
Amortization of bond issuance costs	(11,135)	(11,135)
Unrealized gain (loss) on investments	<u>(11,313)</u>	<u>25,431</u>
	<u>(307,536)</u>	<u>(229,555)</u>
Income (loss) before grants and capital contributions	(100,007)	22,140
Grants and capital contributions	<u>534,620</u>	<u>704,167</u>
Change in net position, carried forward	<u>434,613</u>	<u>726,307</u>

See accompanying notes to the financial statements

**CHRISTIAN COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Change in net position, brought forward	434,613	726,307
Net position, beginning of year	9,701,489	8,975,182
Implementation of GASB 75 (Note 8)	<u>(403,737)</u>	<u>-</u>
Net position, beginning of year, restated	<u>9,297,752</u>	<u>8,975,182</u>
Net position, end of year	<u><u>\$ 9,732,365</u></u>	<u><u>\$ 9,701,489</u></u>

See accompanying notes to the financial statements

**CHRISTIAN COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Receipts from customers and users	\$ 3,658,191	\$ 3,459,268
Cash payments to suppliers for goods and services	(1,983,931)	(1,807,997)
Cash payments to employees	(744,780)	(701,925)
Net cash provided by operating activities	<u>929,480</u>	<u>949,346</u>
Cash flows from capital and related financing activities		
Proceeds from grants	474,061	644,767
Purchases and construction of property and equipment	(1,065,610)	(2,040,066)
Proceeds from issuance of debt	2,197,016	1,283,950
Principal paid on debt	(2,071,966)	(379,500)
Tap-on fees	54,100	58,000
Contributed lines	6,459	1,400
Customer deposits	1,349	6,949
Interest expense	(333,616)	(292,031)
Net cash used in capital and related financing activities	<u>(738,207)</u>	<u>(716,531)</u>
Cash flows from investing activities		
Maturity of certificate of deposit	-	36,833
Interest income	21,331	12,100
Net cash used by investing activities	<u>21,331</u>	<u>48,933</u>
Net increase (decrease) in cash and cash equivalents	212,604	281,748
Cash at beginning of year	<u>2,749,844</u>	<u>2,468,096</u>
Cash at end of year	<u>2,962,448</u>	<u>2,749,844</u>
Less restricted cash		
Cash - customer deposits	(64,040)	(62,691)
Cash - bond and interest redemption	(940,552)	(791,858)
Cash - depreciation reserve	(1,158,492)	(1,124,790)
Cash - bond reserve	(147,014)	(147,287)
Total restricted cash	<u>(2,310,098)</u>	<u>(2,126,626)</u>
Cash and cash equivalents per statement of net position	<u>\$ 652,350</u>	<u>\$ 623,218</u>

See accompanying notes to the financial statements

**CHRISTIAN COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS, continued  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Operating income	\$ 207,529	\$ 251,695
Adjustment to reconcile revenue to net cash provided by operating activities:		
Depreciation	580,969	581,555
(Increase) decrease in:		
Accounts receivable and unbilled revenues	22,429	(44,956)
Inventory	39,132	(36,310)
Prepaid expenses	(1)	3,413
Increase (decrease) in:		
Accounts payable	13,951	60,373
Compensated absences	(18,093)	13,773
Deferred pension and postemployment benefits amounts	<u>83,564</u>	<u>119,803</u>
Net cash provided by operating activities	<u>\$ 929,480</u>	<u>\$ 949,346</u>

See accompanying notes to the financial statements



## **NOTES TO FINANCIAL STATEMENTS**

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**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, 2018 AND 2017**

**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, 2018 AND 2017**

**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, 2018 and 2017.

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, 2018 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, 2018 AND 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Pensions and Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, OPEB and OPEB expense, information about the fiduciary net position of the County Employees Retirement System ("CERS") and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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 that time. The District has two items that qualify for reporting in this category: The deferred outflows of resources related to the net pension liability described in Note 7 and the OPEB liability described in Note 8.

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 District has two items that qualify for reporting in this category: The deferred inflows of resources related to the net pension liability described in Note 7 and the OPEB liability described in Note 8.

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, 2018 AND 2017**

**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 3, 2019, 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 \$2,961,448 and \$2,749,844, and the bank balances were \$2,962,850 and \$2,814,915 as of December 31, 2018 and 2017, 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.

2018

The District's deposits were fully collateralized for all months of the year ending December 31, 2018.

2017

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



**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 2 – CASH AND INVESTMENTS, continued**

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.

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>2018</u>	<u>2017</u>
Cash	\$ 2,961,448	\$ 2,748,844
Investments	800,980	787,634
Petty cash	1,000	1,000

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

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 2 – CASH AND INVESTMENTS, continued**

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
<u>2018</u>			
Mortgage-backed securities	\$ 694,846	\$ -	\$ -
Money market funds	12,872	-	-
Certificates of deposit	93,262	-	-
Total investments	<u>\$ 800,980</u>	<u>\$ -</u>	<u>\$ -</u>
<u>2017</u>			
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>



**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 3 – DISTRICT CAPITAL ASSET AND DEPRECIATION PROCEDURES**

A summary of changes in major classifications of the District capital assets in service as of December 31, 2018 follows:

	Balance December 31, 2017	Reclassifications/ Additions	Reclassifications/ Deletions	Balance December 31, 2018
Capital assets not depreciated:				
Land and land rights	\$ 118,491	\$ -	\$ -	\$ 118,491
Construction work in progress	1,973,712	966,955	-	2,940,667
Total capital assets not depreciated	<u>2,092,203</u>	<u>966,955</u>	<u>-</u>	<u>3,059,158</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	15,666,824	24,023	-	15,690,847
Services	247,664	-	-	247,664
Meters	1,254,834	39,632	-	1,294,466
Hydrants	822,439	-	-	822,439
Office equipment	150,615	-	-	150,615
Vehicles	257,974	28,149	-	286,123
Tools and miscellaneous	476,902	6,851	-	483,753
Total capital assets depreciated	23,824,675	98,655	-	23,923,330
Less: Accumulated depreciation	<u>(9,783,839)</u>	<u>(580,969)</u>	<u>-</u>	<u>(10,364,808)</u>
Total capital assets depreciated, net	<u>14,040,836</u>	<u>(482,314)</u>	<u>-</u>	<u>13,558,522</u>
Total capital assets	<u>\$ 16,133,039</u>	<u>\$ 484,641</u>	<u>\$ -</u>	<u>\$ 16,617,680</u>

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 3 – DISTRICT CAPITAL ASSET AND DEPRECIATION PROCEDURES, continued**

A summary of changes in major classifications of the District capital assets in service as of December 31, 2017 follows:

	Balance December 31, 2016	Reclassifications/ Additions	Reclassifications/ Deletions	Balance December 31, 2017
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	<u>437,632</u>	<u>39,270</u>	<u>-</u>	<u>476,902</u>
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, 2018 AND 2017**

**NOTE 3 – DISTRICT CAPITAL ASSET AND DEPRECIATION PROCEDURES, continued**

Construction in progress amounted to \$2,940,667 and \$1,973,712 at December 31, 2018 and 2017, respectively. The December 31, 2018 and 2017 balances are represented by the following:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Road line extensions	\$ 2,932,667	\$ 1,965,712
Future projects research	<u>8,000</u>	<u>8,000</u>
	<u>\$ 2,940,667</u>	<u>\$ 1,973,712</u>

**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable at December 31 were as follows:

	<u>2018</u>	<u>2017</u>
Customer accounts receivable	\$ 212,893	\$ 220,122
Unbilled revenues	287,388	308,017
Accounts receivable arrears	<u>250,529</u>	<u>206,792</u>
	<u>\$ 750,810</u>	<u>\$ 734,931</u>

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017 are as follows:

Name/Purpose	Interest Rate	Amount 2018	2017
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
Waterworks Revenue Bonds Series 2008 (expansion of lines and improvements), principal due in annual installments through January 1, 2047	4.38%	1,665,500	1,692,000
Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds Series 2012C, principal due in monthly installments through January 1, 2038	2.15% - 4.15%	2,480,000	2,575,000
Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds Series 2013B, principal due in monthly installments through February 1, 2029	2.30%-3.30%	1,265,000	1,370,000
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%	1,975,000	2,105,000
Waterworks Revenue Bonds Series 2018 (Phase VIII line expansion), principal due in annual installments through July 1, 2056	2.75%	1,800,000	-
		<u>\$ 9,185,500</u>	<u>\$ 7,769,500</u>

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 5 – LONG-TERM DEBT, continued**

Revenue Bond debt service requirements to maturity, including \$4,168,773 of interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2019	400,500	308,821	709,321
2020	412,000	296,569	708,569
2021	434,500	284,574	719,074
2022	436,500	272,325	708,825
2023	448,500	259,898	708,398
2024-2028	2,499,000	1,077,367	3,576,367
2029-2033	1,577,500	689,835	2,267,335
2034-2038	1,091,000	451,758	1,542,758
2039-2043	607,000	292,572	899,572
2044-2048	731,500	164,998	896,498
2049-2053	327,000	57,777	384,777
2054-2056	220,500	12,279	232,779
<b>Total</b>	<b>\$ 9,185,500</b>	<b>\$ 4,168,773</b>	<b>\$ 13,354,273</b>

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, 2018 and 2017.

For fiscal year ended December 31, 2017, The District 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%. During fiscal year ended December 31, 2018, an additional \$397,016 was received.

In June 2018, The District issued Waterworks Revenue Bonds, Series 2018 in the amount of \$1,800,000. The proceeds paid off the RD 1940-1 interim financing for the Phase VIII project.

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 5 – LONG-TERM DEBT, continued**

Other Long-term Debt

A summary of other long-term debt as of December 31, 2018 and 2017 follows:

	Interest Rate	Amount 2018	2017
USDA Rural Development advance, principal due in annual installments through 2043, secured by utility revenues	4.375%	\$ 330,000	\$ 337,000
		<u>\$ 330,000</u>	<u>\$ 337,000</u>

Other long-term debt service requirements to maturity, including interest of \$221,296, are as follows:

Year Ending December 31	Principal	Interest	Total
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	8,500	13,059	21,559
2024-2028	50,000	60,057	110,057
2029-2033	62,500	47,250	109,750
2034-2038	78,500	32,244	110,744
2039-2043	99,000	12,927	111,927
Total	<u>\$ 330,000</u>	<u>\$ 221,296</u>	<u>\$ 551,296</u>

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 5 – LONG-TERM DEBT, continued**

A summary of changes in long-term debt for the year ended December 31, 2018 is listed as follows:

Bonds	Balance December 31, 2017	New Issues	Debt Payments and Refunds	Balance December 31, 2018
Series 1993	\$ 27,500	\$ -	\$ 27,500	\$ -
Series 2008	1,692,000	-	26,500	1,665,500
Series 2012C	2,575,000	-	95,000	2,480,000
Series 2013B	1,370,000	-	105,000	1,265,000
Series 2016B	2,105,000	-	130,000	1,975,000
Series 2018	-	1,800,000	-	1,800,000
	<u>7,769,500</u>	<u>1,800,000</u>	<u>384,000</u>	<u>9,185,500</u>
<u>Other Long-Term Debt</u>				
Rural Development advance	337,000	-	7,000	330,000
Rural Development interim	<u>1,283,950</u>	<u>397,016</u>	<u>1,680,966</u>	<u>-</u>
Total debt	<u>9,390,450</u>	<u>2,197,016</u>	<u>2,071,966</u>	<u>9,515,500</u>
<u>Discounts/Premiums</u>				
Unamortized premiums	<u>66,729</u>	<u>-</u>	<u>5,321</u>	<u>61,408</u>
	<u>66,729</u>	<u>-</u>	<u>5,321</u>	<u>61,408</u>
Total debt, net of unamortized discounts and premiums	<u><u>\$ 9,457,179</u></u>	<u><u>\$ 2,197,016</u></u>	<u><u>\$ 2,077,287</u></u>	<u><u>\$ 9,576,908</u></u>

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**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 December 31, 2016	New Issues	Debt Payments and Refunds	Balance December 31, 2017
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	<u>-</u>	<u>1,283,950</u>	<u>-</u>	<u>1,283,950</u>
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	<u>72,529</u>	<u>-</u>	<u>5,800</u>	<u>66,729</u>
	<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 Revenue Bonds Series, 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 \$11,135 for the years ending December 31, 2018 and 2017, respectively.

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 \$5,321 and \$5,800 for the years ending December 31, 2018 and 2017.



**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 7 – DEFINED BENEFIT 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	Before September 1, 2008
	Unreduced retirement	27 years' service or 65 years old
	Reduced retirement	At least 5 years' service and 55 years old At least 25 years' service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years' service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	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.

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 7 – DEFINED BENEFIT PENSION PLAN, continued**

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

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

At December 31, 2018 and 2017, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the District were as follows:

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

2018	2017
<u>\$ 1,303,325</u>	<u>\$ 1,175,520</u>

The net pension liability of the plan was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's 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, 2018 and 2017, the District's proportion was .021400% and .020083%, respectively.

For the years ended December 31, 2018 and 2017, the District recognized pension expense of \$211,813 and \$217,680, respectively, related to CERS. At December 31, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 7 – DEFINED BENEFIT PENSION PLAN, continued**

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,511	\$ 19,078	\$ 1,458	\$ 29,840
Change of assumptions	127,373	-	216,915	-
Net differences between projected and actual earnings on pension plan investments	60,606	76,233	93,100	78,560
Changes in proportion and difference between District contributions and proportionate share of contributions	51,835	54,766	27,655	91,277
District contributions subsequent to the measurement date	41,878	-	48,673	-
Total	<u>\$ 324,203</u>	<u>\$ 150,077</u>	<u>\$ 387,801</u>	<u>\$ 199,677</u>

The amounts of \$41,878 and \$48,673 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, 2018 and 2017. 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 recognize 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:

2019	\$ 93,334
2020	52,536
2021	(6,627)
2022	(6,995)
2023	-
Thereafter	-
Total	<u>\$ 132,248</u>

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 7 – DEFINED BENEFIT PENSION PLAN, continued**

*Actuarial assumptions* – The total pension liability in the June 30, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Measurement Period	
	2018	2017
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%

For the June 30, 2018 and 2017 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumption used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period of July 1, 2008 – June 30, 2013.

*Long term rate of return* - 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 April 31, 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 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, 2018 AND 2017**

**NOTE 7 – DEFINED BENEFIT PENSION PLAN, continued**

Measurement Period 2018	Target	Long-Term Expected Real Rate of Return
<u>Asset Class</u>	<u>Allocation</u>	
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 estate*	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return*	10.00%	6.13%
Private equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	<u>100.00%</u>	

Measurement Period 2017	Target	Long-Term Expected Real Rate of Return
<u>Asset Class</u>	<u>Allocation</u>	
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 estate*	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return*	10.00%	6.13%
Private equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	<u>100.00%</u>	

\*Long-term Expected Real Rates may vary by plans depending on risk tolerance of the plan.

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 7 – DEFINED BENEFIT PENSION PLAN, continued**

*Discount rate* – The discount rate used to measure the total pension liability for the measurement periods with years ended June 30, 2018 and 2017 was 6.25% and 7.25%, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase-in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan employees were projected through 2117. Projected inflows from investment earnings were calculated using the long-term assumed investment return for the years ended June 30, 2018 and 2017 of 6.25% and 7.50%, respectively. 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.

2018 CERS	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
District's proportionate share of net pension liability	\$ 1,640,751	\$ 1,303,325	\$ 1,020,621

  

2017 CERS	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of net pension liability	\$ 1,482,584	\$ 1,175,520	\$ 918,862

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

Payable to the Pension and OPEB Plan

At December 31, 2018 and 2017, the District reported a payable of \$10,636 and \$7,227, 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 (OPEB) contributions.



**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**General Information about the OPEB Plan**

*Plan description:* County Employees Retirement System consists of two plans, Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit OPEB plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The District participates in the Non-Hazardous plan.

*Benefits provided:* The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

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

Portion Paid by Insurance Fund	
Years of Service	Paid by Insurance Fund (%)
20 + Years	100.00%
15 - 19 Years	75.00%
10 - 14 Years	50.00%
4 - 9 Years	25.00%
< 4 Years	0.00%

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued**

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgement, the welfare of the Commonwealth so demands.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for either system.

*Contributions:* The employee contribution rate is set by state statute. Non-Hazardous employees contribute 5%. Employees hired on or after September 1, 2018, contribute an additional 1% to health insurance.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal year ended December 31, 2018 and 2017, participating employers contributed 21.48% (16.22% pension fund and 5.26% insurance fund) and 19.18% (14.18% pension fund and 4.70% insurance fund), respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee's creditable compensation. Contribution to the insurance fund from the District were \$25,644 and \$24,949 for the years ended December 31, 2018 and 2017, respectively. The OPEB contribution amount does not include the implicit subsidy reported in the amount of \$4,535.



**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued**

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

At December 31, 2018, the District reported a liability of \$379,953 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles. The District's proportion of the net OPEB liability was based on the District's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2018, the District's proportion for the non-hazardous system was 0.021400%.

For the year ended December 31, 2018, the District recognized OPEB expense of \$51,518 at December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 44,278
Net difference between projected and actual earnings on OPEB plan investments	-	26,171
Changes of assumptions	75,882	878
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,079	760
District contributions subsequent to the measurement date	13,581	-
Total	<u>\$ 106,542</u>	<u>\$ 72,087</u>

\$13,581 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued**

Years Ending Dec 31,	
2019	\$ 4,397
2020	4,397
2021	4,397
2022	9,480
2023	(263)
Thereafter	<u>(1,534)</u>
Total	<u>\$ 20,874</u>

*Actuarial assumptions:* The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of pay
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate	4.00%
Inflation	3.25%
Salary Increase	4.00%, Average
Investment Rate of Return	7.50%
Healthcare Cost Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

The Mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back on year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). 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.

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued**

The long-term expected return on plan assets was determined by using a building-block method in which best-estimated ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Nominal 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 estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	<u>100.00%</u>	

*Discount rate:* The discount rate used to measure the total OPEB liability was 5.85% for non-hazardous and 5.97% for hazardous assuming that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in the Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trust.

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued**

Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy

*Sensitivity of the Districts' proportionate share of the net OPEB liability to changes in the discount rate:* The following present's the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85% for non-hazardous and 4.97% for hazardous) or 1-percentage-point higher (6.85% for non-hazardous and 6.97% for hazardous) than the current rate:

1% Decrease 4.85%	Current Discount Rate 5.85%	1% Increase 6.85%
<u>\$</u>	<u>\$</u>	<u>\$</u>
493,498	379,953	283,233

*Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates:* The following present's the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
<u>\$</u>	<u>\$</u>	<u>\$</u>
282,879	379,953	494,375

*Changes of assumptions:* Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total OPEB liability as of June 30, 2017 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%

*Payable to the OPEB plan:* At December 31, 2018, the District reported a payable of \$0 for the outstanding amount of contributions to the OPEB plan required for the year ended December 31, 2018.

*Pension plan fiduciary net position:* Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at [www.kyret.ky.gov](http://www.kyret.ky.gov).

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 9 – 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 10 – GRANTS AND CONTRIBUTIONS**

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

	2018	2017
State grants	\$ 5,000	\$ -
Federal grants	469,061	644,767
Tap-on fees	54,100	58,000
Contributed lines	6,459	1,400
	<u>\$ 534,620</u>	<u>\$ 704,167</u>

**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, 2018 and 2017, included in the liability for compensated absences, is \$0 and \$3,000, respectively.

**NOTE 11 – ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS**

During fiscal year 2018, the District adopted the following accounting pronouncements:

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016.
- GASB Statement No. 85, *Omnibus 2017*, issued March 2017.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017

Adoption of these statements did not have a significant impact on the District's financial position or results of operations.

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 11 – ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS, continued**

- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, issued on June 2015 aims to improve financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local government employers regarding financial support for OPEB that is provided by other entities.

Adoption of this statement had a significant impact on the District's financial position. As a result, the District restated the January 1, 2018 net position in the amount of (\$403,737) as outlined below.

	<u>Beginning Balance</u>	<u>As Restated</u>	<u>GASB 75 Adjustment</u>
Statement of revenues, expenses and changes in net position			
Net position, January 1, 2018	\$ 9,701,489	\$ 9,297,752	\$ (403,737)

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CHRISTIAN COUNTY WATER DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
**December 31, 2018**  
**County Employees Retirement System**

	Year Ended December 31,			
	2018	2017	2016	2015
District's portion of net pension liability (asset)	0.021400%	0.020083%	0.023170%	0.021780%
District's proportionate share of net pension liability (asset)	\$ 1,303,325	\$ 1,175,520	\$ 1,140,829	\$ 954,925
State's proportionate share of net pension liability (asset) associated with the Utility	-	-	-	-
Total	<u>\$ 1,303,325</u>	<u>\$ 1,175,520</u>	<u>\$ 1,140,829</u>	<u>\$ 954,925</u>
District's covered-employee payroll	\$ 514,861	\$ 564,185	\$ 578,024	\$ 525,804
District's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	253.14%	208.36%	197.37%	181.61%
Plan fiduciary net position as a percentage of total pension liability	53.54%	53.30%	55.50%	59.97%

*Schedule is intended to present information for 10 years. Additional years will be displayed as they become available. GASB 68 was implemented in fiscal year 2015.*



**CHRISTIAN COUNTY WATER DISTRICT  
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS  
December 31, 2018  
County Employees Retirement System**

	Year Ended December 31,			
	2018	2017	2016	2015
Contractually required contribution	\$ 79,044	\$ 94,130	\$ 91,983	\$ 91,179
Contributions in relation to the contractually required contribution	79,044	94,130	91,983	91,179
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 514,861	\$ 564,185	\$ 578,024	\$ 525,804
Contributions as a percentage of covered employee payroll	15.35%	16.68%	15.91%	17.34%

*Schedule is intended to present information for 10 years. Additional years will be displayed as they become available. GASB 68 was implemented in fiscal year 2015.*

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN  
December 31, 2018**

**Changes in assumptions and benefit terms**

**2017:**

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50 to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

**2018:**

Assumptions: There have been no changes in actuarial assumptions since June 30, 2017.

Plan Provisions:

- House Bill 185 was enacted during the 2018 legislative session. This bill updates the benefit provisions for active members who die in the line of duty.

Discount Rate:

- The single discount rate for CERS did not change for this actuarial period.

**CHRISTIAN COUNTY WATER DISTRICT  
SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY  
December 31, 2018  
County Employees Retirement System**

	2018
District's proportion of the OPEB liability (asset)	0.021400%
District's proportionate share of net OPEB liability (asset)	\$ 379,953
District's covered - employee payroll	\$ 514,861
District's proportionate share of the OPEB liability (asset) as a percentage of its covered-employee payroll	135.51%
Plan fiduciary net position as a percentage of total OPEB liability	57.62%

*Schedule is intended to present information for 10 years. Additional years will be displayed as they become available. GASB 75 was implemented in fiscal year 2018.*

**CHRISTIAN COUNTY WATER DISTRICT  
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS  
December 31, 2018  
County Employees Retirement System**

	2018
Contractually required OPEB contribution	\$ 25,644
Contributions in relation to the contractually required contribution	<u>\$ 25,644</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 514,861
Contributions as a percentage of covered-employee payroll	4.98%

*Schedule is intended to present information for 10 years. Additional years will be displayed as they become available. GASB 75 was implemented in fiscal year 2018.*

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB  
December 31, 2018 and December 31, 2017**

Changes in assumptions and benefit terms

**2017:**

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

**2018:**

Assumptions: There have been no changes in actuarial assumptions since June 30, 2017.

Plan Provisions:

- House Bill 185 was enacted during the 2018 legislative session. This bill updates the benefit provisions for active members who die in the line of duty.

Discount Rate:

- The single discount rate for CERS did not change for this actuarial period.

## **INTERNAL CONTROL AND COMPLIANCE**

**CHRISTIAN COUNTY WATER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Federal Grantor/ Program Title	Federal CFDA Number	Loans	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>			
Water and Waste Disposal Systems for Rural Communities Cluster:			
Loans outstanding as of January 1, 2018	10.760	\$ 3,398,484	\$3,398,484
Loans issued during the year	10.760	397,016	397,016
Water and Waste Disposal System Grant	10.760	-	<u>216,828</u>
Total U.S. Department of Agriculture			4,012,328
<b><u>Department of Housing and Urban Development</u></b>			
Community Development Block Grant	14.228	-	<u>252,233</u>
Total Department of Housing and Urban Development			<u>252,233</u>
Total Expenditures of Federal Awards		<u>\$ 3,795,500</u>	<u>\$ 4,264,561</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Christian County Water District (the District) under programs of the federal government for the year ended December 31, 2018. 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). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**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, 2018 was \$1,800,000.

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, 2018 was \$1,665,500.

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, 2018 was \$330,000.

**NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

**NOTE D – SUBRECIPIENTS**

There were no subrecipients during the fiscal year.



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**DUGUID, GENTRY & ASSOCIATES, P.S.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**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.

## **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 3, 2019

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**DUGUID, GENTRY & ASSOCIATES, P.S.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2018. 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, 2018.

## 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 3, 2019

**CHRISTIAN COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Section I – Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?      ☐ yes    ☒ no

Significant deficiency(ies) identified?    ☒ yes    ☐ none reported

Noncompliance material to financial  
statements noted?      ☐ yes    ☒ no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?      ☐ yes    ☒ no

Significant deficiency(ies) identified?    ☐ yes    ☒ 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    ☒ no

Identification of major federal programs:

<u>Program Title</u>	<u>CFDA Number</u>
Community Development Block Grant	14.228

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

Auditee qualified as a low risk auditee?      ☒ yes    ☐ no

**CHRISTIAN COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**SIGNIFICANT DEFICIENCY**

**2018-001 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, 2018**

**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.

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, 2018.