

PUBLIC SERVICE COMMISSION  
ANNUAL REPORTS

JUL 23 2018

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**CORINTH WATER DISTRICT**  
**FINANCIAL STATEMENTS**

**For Years Ending December 31, 2017 and 2016**



**Van Gorder, Walker & Co., Inc.**  
Certified Public Accountants

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**CORINTH WATER DISTRICT  
BOARD OF COMMISSIONERS**

**December 31, 2017 and 2016**

**Chair**

Dan Field

**Treasurer**

Donnie Dyer

**Secretary**

Bob McDaniel

**Legal Counsel**

Pete Whaley, Attorney at Law



## **Independent Auditor's Report**

**To the Board of Commissioners  
Corinth Water District**

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

We have audited the accompanying financial statements of the business-type activities of the Corinth Water District (District), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

#### ***-Auditor's Responsibility***

Our responsibility is to express 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 from material misstatement.

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

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

**-Opinion**

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

**Other Matters**

**-Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–8 and the pension disclosure on page 25 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2018 on our consideration of the Corinth Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corinth Water District's internal control over financial reporting and compliance.



Van Gorder, Walker & Co., Inc.  
Erlanger, Kentucky  
July 16, 2018

**CORINTH WATER DISTRICT  
P.O. BOX 218  
CORINTH, KY 41010**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2017. The information is presented in conjunction with the audited financial statements that follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the most recent year by \$1,182,427 (net position). Net position decreased by \$146,222 from the prior year.
- At the end of the current year, unrestricted net position was (\$192,280), which is an increase of \$52,858 from the prior year.

**USING THIS ANNUAL REPORT**

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statement No. 34. The financial statements include a statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, and footnotes to the financial statements. These statements show the condition of the District's finances and the sources of income and the funds expended.

**Basis of Accounting**

The District's financial statements are prepared using the accrual basis of accounting.

**The Statements of Net Position and Revenues, Expenses, and Changes in Net Position**

In the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of certain services the District provides.

**SUMMARY OF NET POSITION**

Table 1 provides a summary of the District's net position at December 31, 2017 and 2016.

**Table 1  
Net Position**

	<u>2017</u>	<u>2016</u>
Current assets	\$ 110,299	\$ 132,736
Restricted assets	79,041	75,801
Capital assets	3,470,721	3,601,169
Deferred outflow of resources	<u>91,485</u>	<u>49,606</u>
 Total assets and deferred outflow of resources	 <u>3,751,546</u>	 <u>3,859,312</u>
 Current liabilities	 43,414	 48,353
Liabilities from restricted assets	94,716	90,999
Long-term liabilities	2,389,511	2,376,880
Deferred inflow of resources	<u>41,478</u>	<u>14,431</u>
 Total liabilities and deferred inflow of resources	 <u>2,569,119</u>	 <u>2,530,663</u>
 Net position:		
Invested in capital assets, net of related debt	1,341,395	1,438,969
Restricted	33,312	29,102
Unrestricted	<u>(192,280)</u>	<u>(139,422)</u>
 Total net position	 <u>\$ 1,182,427</u>	 <u>\$ 1,328,649</u>

The District's net position for 2017 decreased 11.0%, or \$146,222, as compared to a 6.6% or \$94,399 decrease in the previous year. The 2017 and 2016 decrease is due to an increase in the net unfunded pension liability and a decrease in net capital assets.

The largest portion of the District's net position (113.4%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position 2.8% is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted portion of net position may be used to meet the District's ongoing obligations to customers and creditors.

**SUMMARY OF CHANGES IN NET POSITION**

Operating Revenues

Operating revenues decreased \$20,528, or 2.8%. This was primarily because the summer of 2017 was cool and wet resulting in decreased water sales

### Operating Expenses

Operating expenses increased \$26,705 or 3.6%. A large portion of this increase was due to an increase in water costs. During the summer of 2017, the District experienced a major leak. It took a long time to locate where the line was leaking, resulting in a large amount of water being lost. In addition, the District experienced increases in materials and supplies expense, insurance expense, and depreciation expense during 2017.

### Net Effect of Change in Pension Expense

This expense represents the amount that the District's proportionate share of the estimated unfunded pension liability associated with its participation in the County Employee Retirement System in its financial statements. The amount that appears as a non-operating expense, \$25,460, is the result of booking the change in the liability and the related deferred inflows and outflows less any amortization of those inflows and outflows between December 31, 2017 and December 31, 2016. This expense increased \$11,558 from the amount reported in 2016. See Note 10 to the financial statements for a more complete explanation of this unfunded liability and the related deferred inflows and outflows.

### Capital Contributions

Capital contributions decreased \$778 from 2016 to 2017.

The following schedule compares the revenues and expenses for the current year and the previous year.

**Table 2**  
**Changes in Net Position**

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water revenue	\$ 680,967	\$ 703,900
Forfeited discounts	32,051	32,240
Miscellaneous service revenues	8,047	5,453
Total operating revenues	<u>721,065</u>	<u>741,593</u>
Total operating expenses	<u>760,803</u>	<u>734,098</u>
Net operating (loss) income	<u>(39,738)</u>	<u>7,495</u>
Non-operating income (expense):		
Interest income	20	17
Gain on disposal of asset	7,044	-
Net effect of change in pension expense	(25,460)	(13,902)
Interest on long-term obligations	<u>(92,709)</u>	<u>(93,408)</u>
Net non-operating expense	<u>(111,105)</u>	<u>(107,293)</u>
Net loss	(150,843)	(99,798)
Capital contributions	<u>4,621</u>	<u>5,399</u>
Change in net position	(146,222)	(94,399)
Net position, January 1	1,328,649	1,423,048
Net position, December 31	<u>\$ 1,182,427</u>	<u>\$ 1,328,649</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2017, the District had \$3,470,721 invested in capital assets including land, water lines, vehicles, and equipment, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$130,448 from the prior year. This decrease is due to the fact that depreciation expense of \$166,475 exceeded the cost of new assets purchased during 2017.

Table 3 summarizes the District's capital assets at the end of 2017 as compared to 2016.

**Table 3**  
**Capital Assets at Year End**

	<u>2017</u>	<u>2016</u>
Land	\$ 21,200	\$ 21,200
Buildings and improvements	105,885	105,885
Lines and equipment	6,373,566	6,370,704
Office furniture and fixtures	24,048	25,265
Transportation equipment	51,573	39,310
Subtotal	6,576,272	6,562,364
Accumulated depreciation	<u>(3,105,551)</u>	<u>(2,961,195)</u>
Total capital assets	<u>\$ 3,470,721</u>	<u>\$ 3,601,169</u>

The District currently has no construction in progress.

### Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2017 compared to 2016.

**Table 4**  
**Outstanding Debt at Year End**

	<u>2017</u>	<u>2016</u>
Bonds payable	\$ 2,108,000	\$ 2,152,300
Note payable	21,326	-
Capital lease obligation - City of Corinth	-	9,900
Total outstanding debt	<u>\$ 2,129,326</u>	<u>\$ 2,162,200</u>

At year-end, the District had \$2,129,326 in outstanding debt compared to \$2,162,600 the previous year. This is a decrease of \$32,874.

During 2017, the District borrowed \$23,636 to purchase a truck. The loan will be repaid over 75 months and bears interest at 7.0744%.

All of the required payments were made on the District's outstanding debt during 2017.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District's budget for 2018 projects a year very similar to 2017. Water revenue is projected to increase based on the expectation that 2018 will be a dryer year resulting in approximately the same amount of usage as the District saw during 2017. This, however, is strictly an estimate since consumption is directly related to weather conditions which are unpredictable. Operating expenses are expected to be approximately \$11,600 more than the 2017 amounts due to increases in employee wages, employee benefits and depreciation expense. As a result, the 2018 budget projects a small operating loss.

## **FINANCIAL CONTACT**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's administrative office at Thomas Lane, Corinth, Kentucky 41018.

William H. Hill, Manager  
Corinth Water District

<b>CORINTH WATER DISTRICT</b> <b>STATEMENTS OF NET POSITION</b> <b>December 31, 2017 and 2016</b>
---

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 12,652	\$ 25,873
Accounts receivable - customers, net of allowance	82,489	93,885
Inventories	11,886	9,453
Prepaid insurance	3,272	3,525
Total current assets	<u>110,299</u>	<u>132,736</u>
Restricted assets		
Reserve funds	3,604	3,382
Sinking funds	75,437	72,419
Total restricted assets	<u>79,041</u>	<u>75,801</u>
Capital assets		
Land	21,200	21,200
Buildings and improvements	105,885	105,885
Lines and equipment	6,373,566	6,370,704
Office furniture and fixtures	24,048	25,265
Transportation equipment	51,573	39,310
Total utility plant in service	<u>6,576,272</u>	<u>6,562,364</u>
Less accumulated depreciation	<u>(3,105,551)</u>	<u>(2,961,195)</u>
Total capital assets, net of depreciation	<u>3,470,721</u>	<u>3,601,169</u>
<b>Total assets</b>	3,660,061	3,809,706
<b>Deferred outflow of resources</b>		
Deferred outflows related to pensions	<u>91,485</u>	<u>49,606</u>
<b>Total assets and deferred outflow of resources</b>	<u>3,751,546</u>	<u>3,859,312</u>

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

(Continued on page 10)

**CORINTH WATER DISTRICT**  
**STATEMENTS OF NET POSITION (continued from page 9)**  
**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable - general	26,963	22,184
Customer deposits	4,640	5,880
Current portion of capital lease obligation - related party	-	9,900
Withheld and accrued liabilities	11,811	10,389
Total current liabilities	<u>43,414</u>	<u>48,353</u>
Current liabilities payable from restricted assets		
Bonds payable	45,700	44,300
Note payable	3,287	-
Accrued interest on bonds	45,729	46,699
Total current liabilities payable from restricted assets	<u>94,716</u>	<u>90,999</u>
Long-term liabilities		
Note payable - Huntington Bank	18,039	-
Bonds payable - USDA - Water Revenue Bonds	2,062,300	2,108,000
Net unfunded pension liability	309,172	268,880
Total long-term liabilities	<u>2,389,511</u>	<u>2,376,880</u>
<b>Total liabilities</b>	2,527,641	2,516,232
<b>Deferred inflow of resources</b>		
Deferred inflow related to pensions	41,478	14,431
<b>Total liabilities and deferred inflow of resources</b>	<u>2,569,119</u>	<u>2,530,663</u>
<b>Net position</b>		
Invested in capital assets, net of related debt	1,341,395	1,438,969
Restricted	33,312	29,102
Unrestricted	(192,280)	(139,422)
<b>Total net position</b>	<u>\$ 1,182,427</u>	<u>\$ 1,328,649</u>

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

<b>CORINTH WATER DISTRICT</b> <b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b> <b>For Years Ending December 31, 2017 and 2016</b>
---

	<u>2017</u>	<u>2016</u>
<b>Operating revenues</b>		
Water revenue	\$ 680,967	\$ 703,900
Forfeited discounts	32,051	32,240
Miscellaneous service revenues	8,047	5,453
<b>Total operating revenues</b>	<u>721,065</u>	<u>741,593</u>
<b>Operating expenses</b>		
Salaries and wages - employees	140,644	139,650
Salaries and wages - officer and directors	13,870	13,644
Employee benefits	32,002	29,742
Retirement benefits	24,762	22,798
Payroll taxes	11,812	11,237
Bad debt expenses	2,921	10,322
Contractual services	65,999	65,970
Depreciation expenses	166,475	160,917
Education/training	1,364	743
Insurance expenses	13,389	9,959
Materials and supplies	22,770	16,194
Miscellaneous expenses	2,907	3,111
Purchased power	4,422	4,063
Purchased water	246,350	235,744
Taxes other than income taxes	1,516	1,399
Transportation expenses	9,600	8,605
<b>Total operating expenses</b>	<u>760,803</u>	<u>734,098</u>
<b>Operating (loss) income</b>	<u>(39,738)</u>	<u>7,495</u>
<b>Non-operating income (expense)</b>		
Interest income	20	17
Gain on disposal of asset	7,044	-
Net effect of change in pension expense	(25,460)	(13,902)
Interest on long-term obligations	(92,709)	(93,408)
<b>Net non-operating expense</b>	<u>(111,105)</u>	<u>(107,293)</u>
<b>Net loss</b>	<u>(150,843)</u>	<u>(99,798)</u>
<b>Capital contributions</b>	<u>4,621</u>	<u>5,399</u>
<b>Change in net position</b>	<u>(146,222)</u>	<u>(94,399)</u>
<b>Net position, January 1</b>	<u>1,328,649</u>	<u>1,423,048</u>
<b>Net position, December 31</b>	<u>\$ 1,182,427</u>	<u>\$ 1,328,649</u>

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

<b>CORINTH WATER DISTRICT</b> <b>STATEMENTS OF CASH FLOWS</b> <b>For Years Ending December 31, 2017 and 2016</b>
--

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Received from customers	\$ 732,461	\$ 721,150
Paid to suppliers for goods and services	(369,879)	(357,423)
Paid to or on behalf of employees for services	(221,668)	(217,044)
	<u>140,914</u>	<u>146,683</u>
<b>Net change in cash for operating activities</b>		
<b>Cash flows from investing activities</b>		
Interest on investments	20	17
Expenditures for construction and equipment	(36,027)	(4,640)
Change in restricted cash	(3,240)	(14,971)
Contributions in aid of construction	4,621	5,399
	<u>(34,626)</u>	<u>(14,195)</u>
<b>Net change in cash for investing activities</b>		
<b>Cash flows from capital and related financing activities</b>		
Interest on long-term debt	(93,679)	(94,323)
Loan proceeds	23,636	-
Proceeds on sale of asset	7,044	-
Payments on long-term debt	(56,510)	(52,700)
	<u>(119,509)</u>	<u>(147,023)</u>
<b>Net change in cash for capital and related financing activities</b>		
<b>Change in cash and cash equivalents</b>	(13,221)	(14,535)
<b>Cash and cash equivalents-beginning of year</b>	<u>25,873</u>	<u>40,408</u>
<b>Cash and cash equivalents-end of year</b>	<u>\$ 12,652</u>	<u>\$ 25,873</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating (loss) income	\$ (39,738)	\$ 7,495
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	166,475	160,917
Change in operating assets and liabilities		
Decrease (increase) in receivables	11,396	(20,442)
(Increase) in inventories	(2,433)	(124)
Decrease (increase) in prepaid assets	253	(26)
Increase (decrease) in accounts payable	4,779	(1,004)
Increase in withheld and accrued liabilities	1,422	27
Decrease in customer deposits	(1,240)	(160)
	<u>\$ 140,914</u>	<u>\$ 146,683</u>
<b>Net cash provided by operating activities</b>		
<b>Supplemental information</b>		
Interest paid	<u>\$ (93,679)</u>	<u>\$ (94,323)</u>

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

**CORINTH WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

**NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES**

Corinth Water District (District) is a water utility, which provides service to residential and commercial customers in Grant, Pendleton, and Harrison Counties in Kentucky. The District was created by the Grant County Court on January 11, 1965 under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”).

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) Opinions of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

Allowance for Bad Debts

The District uses the allowance method to account for bad debts. The balances of the allowance for bad debts were \$3,700 and \$5,100 at December 31, 2017 and 2016, respectively.

Cash Equivalents

For purposes of the balance sheets and statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statutes 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government’s website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

**CORINTH WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2017 and 2016**

Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Distribution System, Building, and Equipment

Property, plant, transmission lines, and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of results of operations.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. During 2017 and 2016 these contributions consisted of the following:

<u>Source</u>	<u>2017</u>	<u>2016</u>
Tap in fees and construction costs paid by new customers	\$ 4,621	\$ 5,399
Total capital contributions received in aid of construction	<u>\$ 4,621</u>	<u>\$ 5,399</u>

Purchased Water Costs

The District is dependent on the City of Williamstown as its sole supplier of water. On September 1, 2004, the District signed an agreement with the City of Williamstown to extend this water service agreement for the next 42 years.

Income Tax Status

The District is exempt from federal and state income taxes since it is a political subdivision of the Grant County Court. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Deposits consist of checking and savings accounts and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the statements of net position as "Cash and Cash Equivalents" and "Restricted Assets". The balances for "Cash and Cash, Equivalents" were

**CORINTH WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

\$88,052 and \$25,873 at December 31, 2017 and 2016, respectively. The balances for "Restricted Assets" were \$3,641 and \$75,801 at December 31, 2017 and 2016, respectively.

The District's investment policy allows investments only in the form of savings accounts and certificates of deposit at local banks in Grant County, Kentucky. The District holds funds at Forcht Bank. The FDIC insures bank deposits for amounts up to \$250,000 per banking institution. Thus, all of the \$91,693 in District funds are insured. In accordance with GASB 40, there is no market risk on these savings account investments.

**NOTE 3 – RESTRICTED NET POSITION**

Net position is comprised of the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net position. Invested in capital assets, net of related debt, consists of all capital assets net of accumulated depreciation and reduced by outstanding debts that are attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets, net of related liabilities, not included in the above categories.

The following amounts are included in restricted net position at December 31, 2017 and 2016:

	2017	2016
Reserve fund	\$ 3,604	\$ 3,382
Sinking fund	75,437	72,419
Accrued interest on bonds	(45,729)	(46,699)
Total Restricted Net Position	<u>\$ 33,312</u>	<u>\$ 29,102</u>

**NOTE 4 – UTILITY PLANT IN SERVICE**

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10-40 years
Furniture and fixtures	5-20 years
Machinery and equipment	3-10 years
Transportation equipment	5 years
Transmission lines and distribution systems	10-40 years

**CORINTH WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

Asset Type	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017
Land	\$ 21,200	\$ -	\$ -	\$ 21,200
Buildings and improvements	105,885	-	-	105,885
Distribution reservoirs and pipes	409,285	-	-	409,285
Furniture and fixtures	25,265	477	(1,694)	24,048
Hydrants	122,814	-	-	122,814
Meter system and installation	933,932	2,862	-	936,794
Supply mains	13,191	-	-	13,191
Tools and equipment	12,022	-	-	12,022
Transmission mains	4,879,460	-	-	4,879,460
Transportation equipment	39,310	32,688	(20,425)	51,573
Subtotal	6,562,364	36,027	(22,119)	6,576,272
Accumulated depreciation	(2,961,195)	(166,475)	22,119	(3,105,551)
Capital assets, net	\$ 3,601,169	\$ (130,448)	\$ -	\$ 3,470,721

**NOTE 5 – WATER REVENUE BONDS, SERIES 1998**

On November 5, 1998, the District issued a water revenue bond in the amount of \$526,000. The interest rate is 4.75% per year. Interest is payable semi-annually on the first day of January and July of each year. Collateral includes water lines, meters and pumping equipment of the District. The first payments were due January 1, 2001 and mature through 2038.

The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	4.75%	\$ 11,000	\$ 18,691	\$ 29,691
2019	4.75%	12,000	18,145	30,145
2020	4.75%	12,000	17,575	29,575
2021	4.75%	13,000	16,981	29,981
2022	4.75%	14,000	16,340	30,340
2023-2027	4.75%	79,000	71,084	150,084
2028-2032	4.75%	100,000	49,876	149,876
2033-2037	4.75%	128,000	22,895	150,895
2038	4.75%	30,000	712	30,712
Totals		\$ 399,000	\$ 232,299	\$ 631,299

**NOTE 6 – WATER REVENUE BONDS, SERIES 2002**

On October 25, 2002, the District issued water revenue bonds in the amount of \$485,000. The interest rate is 4.625% per year. Interest is payable semi-annually on the first day of January and July of each year. Principal installments mature in 2005 through 2042. The first payments were due January 2005. Collateral includes water lines, meters and pumping equipment of the District.

**CORINTH WATER DISTRICT**  
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The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	4.625%	\$ 8,700	\$ 18,391	\$ 27,091
2019	4.625%	9,100	17,980	27,080
2020	4.625%	9,600	17,548	27,148
2021	4.625%	10,000	17,094	27,094
2022	4.625%	10,500	16,620	27,120
2023-2027	4.625%	60,400	75,155	135,555
2028-2032	4.625%	76,200	59,431	135,631
2033-2037	4.625%	96,200	39,591	135,791
2038-2042	4.625%	121,300	14,543	135,843
Totals		<u>\$ 402,000</u>	<u>\$ 276,353</u>	<u>\$ 678,353</u>

**NOTE 7- WATER REVENUE BONDS; SERIES 2005**

On September 9, 2005, the District issued water revenue bonds in the amount of \$1,532,000. These bonds were issued to finance the construction of a waterline extension and to pay off the capital lease balance of \$890,000 previously held by the District. The interest rate is 4.125% per year. Interest is payable semi-annually on the first day of January and July of each year. Principal installments mature in 2007 through 2044. Collateral includes water lines, meters and pumping equipment of the District.

The future minimum cash requirements are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	4.125%	\$ 26,000	\$ 53,378	\$ 79,378
2019	4.125%	27,500	52,274	79,774
2020	4.125%	28,500	51,119	79,619
2021	4.125%	30,000	49,913	79,913
2022	4.125%	31,000	48,655	79,655
2023-2027	4.125%	177,500	222,390	399,890
2028-2032	4.125%	220,500	181,511	402,011
2033-2037	4.125%	272,500	130,834	403,334
2038-2042	4.125%	338,000	68,123	406,123
2043-2044	4.125%	155,500	6,465	161,965
Totals		<u>\$ 1,307,000</u>	<u>\$ 864,662</u>	<u>\$ 2,171,662</u>

**NOTE 8 - CAPITAL LEASE**

In November 2012, the District entered into a capital lease agreement with the City of Corinth, Kentucky, a related party, for the purchase of land and a building, which is being leased back by the City. The leased property of \$69,000 is included in land and buildings and improvements on the fixed asset summary in Note 4. Amortization of the lease is included in depreciation expense. The leased property represents security on this lease, and no interest is being charged. The balance of this capital lease was paid in full as of December 31, 2017.

**CORINTH WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

**NOTE 9 – NOTE PAYABLE**

On March 13, 2017, the District signed a 75-month loan agreement with Huntington Bank for the purchase of a pick-up truck in the amount of \$23,636 at a fixed annual interest rate of 7.0744%. Principal and interest are payable in seventy-five (75) monthly installments in the amount of \$393 each and any outstanding principal and accrued interest will be due and payable in full on the maturity date of June 13, 2023. This loan is secured by the pick-up truck. The future minimum note payments are as follows:

Year	Principal Amount	Interest Amount	Total Note Payments
2018	\$ 3,287	\$ 1,423	\$ 4,710
2019	3,531	1,179	4,710
2020	3,790	920	4,710
2021	4,074	636	4,710
2022	4,376	334	4,710
2023	2,268	47	2,315
Totals	<u>\$ 21,326</u>	<u>\$ 4,539</u>	<u>\$ 25,865</u>

**NOTE 10 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM**

The District’s eligible employees are covered by the County Employees Retirement System.

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

*Plan description*-Employees are covered by the CERS, 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 and death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years of service.

For retirement purposes, employees are grouped into three tiers, based on hire date:

<b>CORINTH WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2017 and 2016</b>
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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 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 of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

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

### Contributions

The District contributed 18.68% (from January – June of 2017) of which 13.95% was for the pension fund and 4.73% was for the health insurance fund, and 19.18% (from July – December of 2017) of which 14.48% was for the pension fund and 4.70% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended December 31, 2017. The District made all required contributions for the Plan pension obligation for the fiscal year ended December 31, 2017 in the amount of \$24,762, of which \$18,595 was for the pension fund and \$6,167 was for the health insurance fund.

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

At December 31, 2017, the District reported a liability of \$309,172 its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share

**CORINTH WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the District's employer allocation proportion was 0.005282% of the total CERS non-hazardous duty. The District's proportion was a decrease of .000179% from its proportion measured as of June 30, 2016. For the year ended December 31, 2017, the District recognized a pension expense of \$44,054.

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 383	\$ 7,848
Net difference between projected and actual earnings on plan investments	24,486	20,662
Changes of assumptions	57,051	-
Changes in proportion and differences between District's contributions and proportionate share of contributions	-	12,968
District's contributions subsequent to the measurement date	9,565	-
Total	<u>\$ 91,485</u>	<u>\$ 41,478</u>

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, differences between projected and actual earnings on plan investments, changes of assumptions, changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date most of which are deferred over the weighted average years of working lifetime of all plan participants (active and inactive) which is determined to be 3.50 and 3.51 years for 2017 and 2016, respectively. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period. Deferred outflows related to the District's contributions subsequent to the measurement date are not amortized.

**Deferred Outflows and Inflows of Resources**

In FY 2017, \$91,485 was recognized as a deferred outflow of resources resulting from a) differences between expected and actual experience, b) difference between projected and actual earnings, c) changes in assumptions, and d) the District's contributions subsequent to the measurement date. In FY 2017, \$41,478 was recognized as a deferred inflow of resources resulting from a) differences between expected and actual experience, b) differences between projected and actual earnings, and c) changes in proportion.

The District's contributions subsequent to the measurement date of \$9,565 will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>CORINTH WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2017 and 2016</b>
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Fiscal Year Ending December 31,	Net Deferral Amortization
2018	\$ 15,781
2019	19,282
2020	9,349
2021	(3,970)
2022	-
	<u>\$ 40,442</u>

**Actuarial Assumptions**

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

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	6.255%, net of pension plan expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and the margin will be reviewed when the next experience investigation is conducted. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**CORINTH WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2017 and 2016**

**Changes of Assumptions**

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 was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

<b>CORINTH WATER DISTRICT</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b> <b>December 31, 2017 and 2016</b>
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**Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

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

	Discount Rate	District's Proportionate Share of Net Pension Liability
1% decrease	5.25%	\$ 389,932
Current discount rate	6.25%	309,172
1% increase	7.25%	241,616

**Plan Fiduciary Net Position**

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan’s fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

**NOTE 11 – RELATED PARTY TRANSACTIONS**

Billy Hill, the General Manager of the Water District, acts as both the General Manager of the Water District and the Mayor of the City of Corinth. The District has normal business relations with the City of Corinth. Some minor reimbursable expenses have been paid by one entity and reimbursed by/to the other.

The District paid \$1,629 and \$0 during 2017 and 2016, respectively, to the brother of a District commissioner for meter testing services.

**NOTE 12 – RISKS/COMMITMENTS/CONTINGENCIES**

Corinth Water District depends upon the credit given to a large group of individual customers. The revenue from individuals is significantly larger than the revenue from corporations. Therefore, there is considerably less cash flow risk from the failure of a single customer to pay.

**NOTE 13 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

**Statement No. 73** – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

**Statement No. 74** – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*

**Statement No. 77** – *Tax Abatement Disclosures*

**Statement No. 78** – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*

**CORINTH WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

**Statement No. 79** – *Certain External Investment Pools and Pool Participants*

**Statement No. 80** – *Blending Requirements for Certain Component Unites – an Amendment of GASB Statement No. 14*

**Statement No. 82** – *Pension Issues – an Amendment of GASB Statements No. 67, 68, and 73*

**NOTE 14 – FUTURE ACCOUNTING STANDARDS**

**Statement No. 75** – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – Implementation in FY 2018*

**Statement No. 81** – *Irrevocable Split-Interest Agreements – Implementation in FY 2018*

**Statement No. 83** – *Certain Asset Retirement Obligations – Implementation in FY 2019*

**Statement No. 84** – *Fiduciary Activities – Implementation in FY 2020*

**Statement No. 85** – *Omnibus 2017 – Implementation in FY 2018*

**Statement No. 86** – *Certain Debt Extinguishment Issues – Implementation in FY 2018*

**Statement No. 87** – *Leases – Implementation in FY 2021*

**NOTE 15 - SUBSEQUENT EVENTS**

Management has evaluated events through July 16, 2018, the date on which the financial statements were available for issue. The District has one event subsequent to December 31, 2017 through July 16, 2018 to disclose.

In May 2018, the Corinth Water District had a water leak that caused an estimated water loss of 3,200,000 gallons. Water service had to be shut off for residents while the line was repaired. In June 2018, the District opened a line of credit in the amount of \$15,000 to cover the costs of the water loss and the repairs to the line.

**CORINTH WATER DISTRICT**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN-NON-HAZARDOUS**  
**Last Ten Fiscal Years**

**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**County Employees' Retirement System (CERS)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.005282%	0.005460%	0.005910%							
Proportionate share of the net pension liability (asset)	\$ 309,172	\$ 268,880	\$ 254,132							
Covered employee payroll in year of measurement	\$ 130,276	\$ 137,904	\$ 139,121							
Share of the net pension liability (asset) as a percentage of its covered employee payroll	237.32%	194.98%	182.67%							
Plan fiduciary net position as a percentage of total pension liability	55.50%	59.97%	66.80%							

**Schedule of the District's Pension Fund Contributions**  
**County Employees' Retirement System (CERS)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 17,940	\$ 16,180	\$ 17,583	\$ 19,115						
Actual contribution	17,940	16,180	17,583	19,115						
Contribution deficiency (excess)	-	-	-	-						
Covered employee payroll	\$ 128,604	\$ 130,276	\$ 137,904	\$ 139,121						
Contributions as a percentage of covered employee payroll	13.95%	12.42%	12.75%	13.74%						

**Notes to Required Supplementary Information**  
**for the Year Ended December 31, 2017**

The net pension liability as of December 31, 2017, is based on the June 30, 2017, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 10 in the Notes to the Financial Statements.



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

**To the Board of Commissioners  
Corinth Water District**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Corinth Water District, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Corinth Water District's basic financial statements and have issued our report thereon dated July 16, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audits of the financial statements, we considered Corinth Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Corinth Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Corinth Water District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. During our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described below, that we consider significant deficiencies.

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.

### ***Lack of Segregation of Duties***

Condition: We noted that, due to the size of the District and financial considerations, the executing and recording of transactions are performed by the same person.

Criteria: The process of executing a transaction should be segregated from the process of recording the transaction.

Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account.

Recommendation: Internal controls should continue to be implemented to segregate the duties of the personnel. Controls should be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corinth Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

#### ***Not in Compliance with Bond Covenant***

Condition: We noted that for 2017, the total net revenue as defined by the Bond Resolution with Rural Development of the Department of Agriculture of the United States of America (RD), Article 5. Covenant of District, Section 501. Rates and Charges, is less than the total average debt service remaining multiplied by the rate covenant multiplier of 120%.

Criteria: Per the Bond Covenant, the total net revenue must be greater than the total minimum average debt service for the District to be in compliance.

Effect: Compliance is a necessary part of any system of internal control. Non-compliance with the bond covenant is an issue because the District runs on a very close margin, and any unforeseen maintenance or operations expense could increase expenses and reduce the total net revenue below the total minimum average debt service.

Recommendation: Bond covenant compliance should be monitored quarterly by the District's Board of Commissioners to make sure that the District is able to adequately meet the requirements of the Bond Resolution.

### **Purpose of this Report**

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

*Van Gorder, Walker & Co., Inc.*

**Van Gorder, Walker & Co., Inc.**  
Erlanger, Kentucky  
July 16, 2018