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MAYFIELD, PSC**
Certified Public Accountants

CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
With Independent Auditor's Report**

FOR THE YEAR ENDED DECEMBER 31, 2017



PUBLIC SERVICE COMMISSION
ANNUAL REPORTS

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CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
With Independent Auditor's Report**

FOR THE YEAR ENDED DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners
Crittenden Livingston County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the Crittenden Livingston County Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Crittenden Livingston County Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Crittenden Livingston County Water District, as of December 31, 2017, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2-7 and the pension information on pages 32-34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Crittenden Livingston County Water District basic financial statements. The Budgetary Comparison Information (Schedule of Revenues, Expenditures and Changes in Net Position – Budget and Actual) on page 36 and the Detail Schedule of Operating Expenses information on page 37 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Information and the Detail Schedule of Operating Expenses information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information, and the detail schedule of operational expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2019, on our consideration of the Crittenden Livingston County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Crittenden Livingston County Water District's internal control over financial reporting and compliance.



Mayfield, KY
January 16, 2019

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

The Crittenden-Livingston County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the years ended December 31, 2017. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources of the District exceed its total liabilities and deferred inflows of resources at December 31, 2017, by \$7,499,148 (Net Position). Of this amount \$985,475 is restricted, and \$7,184,106 is invested in capital assets net of the related debt, leaving negative unrestricted net position of \$670,433.
- The District's net position decreased by \$48,287 resulting in a December 31, 2017 balance of \$7,499,148. This balance represents a decrease of less than 1.0% in the change of net position over the December 31, 2016 balance of \$7,547,435.
- The District's 2017 operating revenues of \$2,417,743 increased 5.5% from the 2016 amount, and operating expenses for 2017 of \$2,147,931 increased 2.6%. Non-operating income for 2017, consisted of interest income of \$1,681, grant revenues of \$98,518, and capital contributions consisted of tap on fees and new lines of \$46,020.
- The District's unrestricted cash available for operating expenses was \$47,899 at December 31, 2017.
- The District's investment in capital assets was \$19,274,557 net of depreciation at December 31, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the Crittenden Livingston Water District.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Auditing Standards Board (GAB).

Statement of net position. The statement of net position presents the financial position of the District. It presents information on the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is displayed in three components: net investment in capital assets, restricted (distinguished between major categories of restrictions) and unrestricted. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on page 8.

Statement of revenues, expenses and changes in net position. The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 9 of this report.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 10.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 11-30 of this report.

Required Supplementary Information. In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on page 32-37.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$7,499,148 at December 31, 2017.

For the current year, the District reported a net loss of \$48,287. The most significant component of this loss was an increase in administrative and general expenses from the prior year of \$86,628. Of that amount, retirement expense increased \$116,557 due to the required GASB 68 pension adjustments.

During 2017, the District's net capital assets decreased \$161,581, and total debt liabilities increased by \$48,506. Unrestricted net position decreased \$340,847, from a negative \$1,011,280 at December 31, 2016, to a negative \$670,433 at December 31, 2017.

The District noted operating revenue of \$2,417,743, a 5.5% increase from the 2016 revenue of \$2,291,704. Operating expenses increased \$55,280 from the 2016 amount of \$2,092,651. Interest expense decreased \$44,809 from 2016. The total interest expense recognized in 2017 was \$464,318.

The District entered into an agreement with Kentucky Infrastructure Authority to finance the Moore Hill water tank project. The project was completed on June 22, 2018. The total loan proceeds were \$978,850.

Overall, the District's financial position decreased during 2017.

The District's overall financial position and operations for the past two years are summarized as follows:

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT'S
NET POSITION**

| | | |
|-----------------------------------|---------------------|---------------------|
| Assets: | 2017 | 2016 |
| Current and other assets | \$ 484,330 | \$ 445,376 |
| Restricted assets | 975,448 | 1,364,982 |
| Capital assets | <u>19,274,557</u> | <u>19,436,138</u> |
| Total Assets | <u>20,734,335</u> | <u>21,246,496</u> |
| Deferred Outflows of Resources: | <u>602,850</u> | <u>221,200</u> |
| Liabilities: | | |
| Current liabilities | 320,565 | 770,419 |
| Current portion of long-term debt | 634,235 | 1,086,980 |
| Long-term liabilities | <u>12,600,936</u> | <u>11,864,855</u> |
| Total Liabilities | <u>13,555,736</u> | <u>13,722,254</u> |
| Deferred Inflows of Resources | <u>282,301</u> | <u>198,007</u> |
| Net Position: | | |
| Net investment in capital assets | 7,184,106 | 7,189,938 |
| Restricted | 985,475 | 1,368,776 |
| Unrestricted | <u>(670,433)</u> | <u>(1,011,279)</u> |
| Total Net Position | <u>\$ 7,499,148</u> | <u>\$ 7,547,435</u> |

The largest portion of the District's net position (95.4%) reflects its investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies and mapping, and infrastructure), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are 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 these liabilities.

An additional portion of the District's net position (13%) represents resources that are subject to restrictions on how they may be used. The remaining balance of net position is a negative unrestricted balance of \$670,433.

Analysis of the District's Operations – Overall the District had a decrease in net position of \$48,287.

The following table provides a summary of the District's operations for the year ended December 31, 2017 and 2016.

**CRITTENDEN-LIVINGSTON COUNTY WATER DISTRICT
CHANGES IN NET POSITION**

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Revenues | | |
| Operating revenues | \$ 2,417,743 | \$ 2,291,704 |
| Investment income | 1,681 | 507 |
| Grant revenues | 98,518 | - |
| Insurance proceeds | - | 12,841 |
| Capital contributions | <u>46,020</u> | <u>24,750</u> |
| Total revenues | <u>2,563,962</u> | <u>2,329,802</u> |
| Expenses | | |
| Transmission and distribution expenses | 675,970 | 696,605 |
| Depreciation and amortization | 665,746 | 665,072 |
| Administrative and general expenses | 612,727 | 526,099 |
| Interest on debt and other | 464,318 | 509,127 |
| Water treatment | 135,966 | 139,485 |
| Payroll and other taxes | 38,942 | 40,047 |
| Customer accounts expenses | 18,167 | 17,123 |
| Bad debts | <u>413</u> | <u>8,220</u> |
| Total Expenses | <u>2,612,249</u> | <u>2,601,778</u> |
| Change in net position | (48,287) | (271,976) |
| Net position - January 1 - restated | <u>7,547,435</u> | <u>7,819,411</u> |
| Net position - December 31 | <u>\$ 7,499,148</u> | <u>\$ 7,547,435</u> |

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

Overall, the District's financial position is consistent with the previous year.

BUDGETARY HIGHLIGHTS

The original budget and the final budget passed by the board anticipated operating revenues of \$2,366,046 and operating expenses of \$1,928,100. Actual operating revenues exceeded budgeted revenues by \$51,697, and actual operating expenses exceeded budgeted expenses by \$219,831 for a negative variance in operating income of \$168,134.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets for business-type activities as of December 31, 2017, amounts to \$19,274,557 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure.

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Business-type activities: | | |
| Capital assets, not being depreciated: | | |
| Land | \$ 101,969 | \$ 101,969 |
| Construction in progress | - | 519,915 |
| Total capital assets, not being depreciated | <u>101,969</u> | <u>621,884</u> |
| Capital assets, being depreciated: | | |
| Transmission and distribution | 15,372,084 | 14,891,847 |
| Buildings | 22,811 | 24,896 |
| Furniture and fixtures | 4,922 | 5,689 |
| Machinery and equipment | <u>3,772,771</u> | <u>3,891,823</u> |
| Total capital assets, being depreciated | <u>19,172,588</u> | <u>18,814,255</u> |
| Business-type activities capital assets, net | <u>\$ 19,274,557</u> | <u>\$ 19,436,139</u> |

During the year ended December 31, 2017, the District acquired assets totaling \$1,024,079. This includes the Moore Hill water tank project of \$963,060, telemetry, and new line and meter installs.

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-term and other debt

At the end of the current year, the Crittenden-Livingston County Water District had total debt of \$12,288,105. The District entered into an agreement with Kentucky Infrastructure Authority to finance the Moore Hill water tank project. The total amount financed was \$978,850. The District also issued new revenue bonds to payoff the Kentucky Association of Counties Finance Corporation 2010 lease. The total amount of the refunding debt was \$2,445,000. Long-term debt at December 31, 2017, was as follows:

| | <u>2017</u> | <u>2016</u> |
|----------------------------------|----------------------|----------------------|
| Revenue Bond Series 1995A | \$ 610,000 | \$ 631,000 |
| Revenue Bond Series 2000A | 1,566,000 | 1,605,000 |
| Revenue Bond Series 2008C | 1,040,000 | 1,150,000 |
| 2013 Flexible Term Financing | 2,905,000 | 3,100,000 |
| 2013 Flexible Term Financing | 1,925,000 | 1,980,000 |
| Reoffering Premium | 145,177 | 179,331 |
| KIA Loan | 491,378 | 568,260 |
| KIA Loan - Radio-read Meters | 242,509 | 255,733 |
| KIA Loan - Moore Hill water tank | 960,486 | - |
| KACO Lease 2010A | - | 2,259,584 |
| KACO Lease 2017C | 2,375,000 | - |
| KACO Lease 2017C - Premium | 27,555 | - |
| Interim financing - KIA | - | 517,290 |
| Total | <u>\$ 12,288,105</u> | <u>\$ 12,246,198</u> |

Interest expense of \$464,318 was incurred during the year ended December 31, 2017.

Additional information on the District's long-term debt can be found in Note 6 of this report.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Crittenden-Livingston County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Ronnie Slayden, Superintendent, Crittenden-Livingston County Water District, 620 East Main Street, Salem, KY 42078.

Crittenden-Livingston County Water District
Statement of Net Position
December 31, 2017

Assets

Current Assets:

| | |
|---|------------------|
| Cash equivalents | \$ 47,899 |
| Customer accounts receivable (less allowance for uncollectible accounts of \$19,882) | 212,074 |
| Unbilled revenue | 74,632 |
| Inventory | 129,161 |
| Prepaid expenses | 20,289 |
| Other receivables | 275 |
| Restricted assets: | |
| Cash equivalents | 975,448 |
| Total current assets | <u>1,459,778</u> |

Noncurrent Assets:

| | |
|-------------------------------------|-------------------|
| Capital assets, net of depreciation | 19,274,557 |
| Total noncurrent liabilities | <u>19,274,557</u> |
| Total Assets | <u>20,734,335</u> |

Deferred Outflows of Resources

| | |
|--|----------------|
| Deferred outflows of resources related to pensions | 405,194 |
| Deferred outflows of resources related to debt | 197,656 |
| Total deferred outflows of resources | <u>602,850</u> |

Liabilities

Current Liabilities:

| | |
|--------------------------------|----------------|
| Trade accounts payable | 58,836 |
| Construction accounts payable | 25,879 |
| Accrued liabilities | 25,073 |
| Accrued interest on debt | 198,417 |
| Customers' deposits | 12,360 |
| Long-term debt due in one year | 634,235 |
| Total current liabilities | <u>954,800</u> |

Noncurrent Liabilities:

| | |
|-----------------------------------|-------------------|
| Long-term debt due after one year | 11,481,140 |
| Net pension liability | 1,119,796 |
| Total noncurrent liabilities | <u>12,600,936</u> |
| Total Liabilities | <u>13,555,736</u> |

Deferred Inflows of Resources

| | |
|---|----------------|
| Deferred inflows of resources related to debt | 172,732 |
| Deferred inflows of resources related to pensions | 109,569 |
| Total deferred inflows of resources | <u>282,301</u> |

Net Position

| | |
|----------------------------------|---------------------|
| Net investment in capital assets | 7,184,106 |
| Restricted for: | |
| Debt service | 904,858 |
| Customer deposits | 11,975 |
| Capital projects | 48,353 |
| Prepaid expenses | 20,289 |
| Unrestricted | (670,433) |
| Total Net Position | <u>\$ 7,499,148</u> |

See accompanying notes and auditor's report.

Crittenden-Livingston County Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2017

Operating Revenue

| | |
|--------------------------|------------------|
| Charges for services | \$ 2,351,468 |
| Other revenue | <u>66,275</u> |
| Total Operating Revenues | <u>2,417,743</u> |

Operating Expenses

| | |
|--|------------------|
| Transmission and distribution expenses | 675,970 |
| Depreciation | 665,746 |
| Administrative and general expenses | 612,727 |
| Water treatment | 135,966 |
| Payroll and other taxes | 38,942 |
| Customer accounts expenses | 18,167 |
| Bad debts | <u>413</u> |
| Total Operating Expenses | <u>2,147,931</u> |

Operating Income (Loss)

269,812

Nonoperating Revenues (Expenses)

| | |
|---------------------------------------|------------------|
| Investment income | 1,681 |
| Grant revenues | 98,518 |
| Interest on debt | <u>(464,318)</u> |
| Total Nonoperating Revenue (Expenses) | <u>(364,119)</u> |

Net Income Before Capital Contributions

(94,307)

Capital Contributions

46,020

Change in Net Position

(48,287)

Net Position-Beginning of Year

7,547,435

Net Position-End of Year

\$ 7,499,148

See accompanying notes and auditor's report.

Crittenden-Livingston County Water District
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows From Operating Activities

| | |
|---|------------------|
| Cash received from customers | \$ 2,380,589 |
| Cash payments to suppliers for goods and services | (842,494) |
| Cash payments to employees for services | (499,225) |
| Net Cash Provided By Operating Activities | <u>1,038,870</u> |

Cash Flows From Capital and Related Financing Activities

| | |
|---|------------------|
| Principal paid on capital debt | (2,858,054) |
| Contributed capital | 46,020 |
| Acquisition of property, plant, and equipment | (478,285) |
| Proceeds from grant revenue | 98,518 |
| Proceeds from capital debt | 2,734,442 |
| Interest paid on debt | (529,390) |
| Net Cash Used by Capital and Related Financing Activities | <u>(986,749)</u> |

Cash Flows From Investing Activities

| | |
|---------------------------------------|--------------|
| Income received on investments | 1,681 |
| Net Cash Used By Investing Activities | <u>1,681</u> |

Net Increase (Decrease) in Cash Equivalents

53,802

Cash Equivalents-Beginning of Year

969,545

Cash Equivalents-End of Year

\$ 1,023,347

Reconciliation of Operating Income to Net Cash Provided

By Operating Activities

| | |
|---|---------------------|
| Operating Income (Loss) | \$ 269,812 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 665,746 |
| Change in assets and liabilities | |
| Decrease (increase) in accounts receivable | (37,394) |
| Decrease (increase) in inventory | (5,673) |
| Decrease (increase) in prepayments | 6,143 |
| Decrease (increase) in deferred outflows of resources | (183,994) |
| Increase (decrease) in accounts payable | 804 |
| Increase (decrease) in customer deposits | 240 |
| Increase (decrease) in accrued liabilities | (2,537) |
| Increase (decrease) in deferred pension liability | 234,830 |
| Increase (decrease) in deferred inflows of pensions | 90,893 |
| Net Cash Provided By Operating Activities | <u>\$ 1,038,870</u> |

Reconciliation of Total Cash

| | |
|--------------------------|---------------------|
| Current Assets - Cash | \$ 47,899 |
| Restricted Assets - Cash | 975,448 |
| Total Cash | <u>\$ 1,023,347</u> |

Non-cash Investing, Capital and Related Financing Activities - None

See accompanying notes and auditor's report.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Crittenden-Livingston County Water District, (the District), is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Salem, Kentucky and primarily serves rural Crittenden-Livingston County.

The accounting and reporting policies of the District relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the District are described below:

Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executives of Crittenden and Livingston counties, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, net position, revenues, and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Position.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position, and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

Reclassification

Prior period financial statement amounts have been reclassified to conform to current period presentation.

Budget

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2017, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments

Cash and cash equivalents are deposited with First Southern National Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2017 are recorded as prepaid items.

Post Employment Benefits

Post employment benefits are those received by employees after termination of employment. The District provides no such benefits.

Capital Assets

Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

| | |
|-----------------------------|----------------|
| Buildings | 10 to 50 years |
| Transmission Lines | 5 to 50 years |
| Plant and Pumping Equipment | 5 to 10 years |
| Meters | 5 to 10 years |
| Office Equipment | 5 to 10 years |
| Vehicles | 5 years |

Allowance for Uncollectible Accounts

The direct write-off method was used for recording un-collectible accounts. An allowance for uncollectible accounts has been provided based on an analysis of receivables outstanding more than 120 days. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the December 31, 2017 accounts receivable.

Unearned Revenue

The District recognizes certain revenue transactions as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available.

Inventory

Inventories are generally used for repair and replacement of infrastructure, and connection of new services and are stated at average cost.

Restricted Assets

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed. See Note 4 for information describing restricted assets.

Estimates

The preparation of the District's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 disaster. During the year ended December 31, 2017, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

Bond Discounts/Issuance Costs

The District adopted GASB 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2013. GASB 65 requires that debt issuance costs be expensed in the period they are incurred.

Pensions

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

Net Position

In the financial statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources: In addition to assets, the statement of net position will sometimes report 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category.

Deferred Inflows of Resources: 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.

A deferred inflow from pensions results from net differences between expected and actual earnings on pension plan investments. This amount is deferred and will be recognized as a reduction of pension expense over the next four years. A deferred inflow from debt refunding results from the difference in acquisition price, and the net carrying amount of the old debt and is recognized as a component of interest expense over the remaining life of the debt.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

Adoption of New Accounting Pronouncements

GASB Statement No. 80

GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, was issued January 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This Statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

GASB Statement No. 81

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued March 2016. The provisions of this Statement are effective for periods beginning after December 15, 2016. This Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of a split interest agreement.

GASB Statement No. 82

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued March 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This Statement clarifies certain issues that have been raised with previous pronouncements.

Recent Accounting Pronouncements

As of December 31, 2017, the GASB has issued the following statements not yet required to be adopted by the District.

GASB Statement No. 75

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. This Statement replaces Statements No. 45 and 57. The City's management has not yet determined the effect this statement will have on the financial statements. It is estimated that the District's portion of unfunded liability will be approximately \$384,599.

Subsequent Events

The District has evaluated subsequent events through January 16, 2019, the date which the financial statements were available to be issued.

2. **LEGAL COMPLIANCE**

Deficit Net Position

There was not a deficit net position for the year ended December 31, 2017.

Budgets

Excess of Expenditures Over Appropriations

The District has an excess of actual operating expenditures over budget for the year ended December 31, 2017 of \$219,831. This excess was due mainly to pension adjustments required by GASB 68.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

3. DEPOSITS AND INVESTMENTS

1. Net Position

The captions on the statement of net position for cash, investments and restricted assets enumerated as to deposits and investments, and the amounts in total are as follows:

| | <u>Cash on Hand</u> | <u>Deposits</u> | <u>Investments</u> | <u>Total</u> |
|--------------------|---------------------|---------------------|--------------------|---------------------|
| Cash equivalents | \$ 200 | \$ 47,699 | \$ - | \$ 47,899 |
| Investments | - | - | - | - |
| Restricted assets: | | | | |
| Cash equivalents | - | 975,448 | - | 975,448 |
| Investments | - | - | - | - |
| Total | <u>\$ 200</u> | <u>\$ 1,023,147</u> | <u>\$ -</u> | <u>\$ 1,023,347</u> |

2. Deposits

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could effect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund. These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the District, includes disclosure of the following risks:

- Risks related to custodial credit risk of deposits;
- Deposit and investment policies related to those risks.

Custodial Credit Risk is the risk that in the event of a failure of a depository institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. At year-end, the carrying amount of the District's deposits in financial institutions were \$1,023,347, and the bank balances were \$1,118,862. Of the bank balances, \$500,000 was covered by federal depository insurance, with \$618,862 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

The District holds cash deposits in the amount of \$498,565 in the Regions Trust Cash Sweep III (RTCS). RTCS is a bank deposit account offered through Regions Institutional Services. The RTCS does not directly invest in securities. It is a deposit account that is collateralized by government securities. Collateral may include:

- Interest bearing obligations of the U.S. Government
- Senior debt obligations of any U.S. Government Agency
- And/or municipal securities with an underlying rating of A or better.

RTCS is FDIC Insured up to \$250,000. Deposit account amounts in excess of \$250,000 are secured by perfected liens on Regions Bank's securities in an amount not less than 105% of the total excess deposits. In the event of a default, the collateral reverts to the Collateral Agent to be distributed to the account owners. RTCS deposits are identified as "cash" on

Crittenden-Livingston County Water District
Notes to the Financial Statements
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client statements; there are no market value fluctuations.

The District does not have deposit and investment policies. However, Kentucky Revised Statutes (KRS 66.480) authorized Kentucky municipalities to invest in:

- a) Obligations of the U.S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
- b) Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
- c) Savings and loan associations insured by the U.S. government;
- d) Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U.S. government;
- e) Deposit accounts with banking institutions;
- f) State treasurer investment pool

3. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be invested with one issuer.

4. RESTRICTED NET POSITION

Net Assets Restricted

| | Depreciation Fund | Sinking Funds | Capital Projects | Tenant Deposits | Total |
|------------------|----------------------|-------------------|---------------------|--------------------|-------------------|
| Cash equivalents | \$ 228,267 | \$ 676,591 | \$ 48,353 | \$ 11,975 | \$ 965,186 |
| Investments | - | - | - | - | - |
| Totals | <u>\$ 228,267</u> | <u>\$ 676,591</u> | <u>\$ 48,353</u> | <u>\$ 11,975</u> | <u>\$ 965,186</u> |

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

Restricted Cash and Investments

Crittenden Livingston Water Sinking Fund - The sinking fund was established for the purpose of paying the principal and interest on the Water Revenue Bonds. The bond ordinances require that the amount deposited each month equals one-sixth of the next succeeding interest requirement and one-twelfth of the principal requirements becoming due on the note on the next succeeding January 1. At December 31, 2017 the balance of the Sinking Fund was \$178,026.

Depreciation Reserve - The bond ordinances require Crittenden Livingston Water District to make monthly contributions to this fund after observing the priority of deposits into the Sinking Fund. The funds in the Depreciation Fund can be expended for the purpose of paying the cost of unusual or extra-ordinary maintenance, repairs, renewals or replacements, and the cost of constructing additions and improvements to the system. Under the 1995 ordinance the District is to make \$1,842 monthly deposits until the Depreciation Fund reaches \$224,640 and shall be maintained throughout the life of the bonds. The 1995 bond ordinance amends all previous ordinances. Under the 2000 ordinance the District is to make \$2,115 monthly deposits over the life of the loan in addition to the requirement of all previous ordinances. At December 31, 2017 the balance of the Depreciation Reserve Fund was \$228,267.

Crittenden Livingston Tenant Deposit Fund - This account is set aside to account for customer deposits. At December 31, 2017 the restricted balance of the Crittenden Livingston Tenant Deposit Fund was \$11,975.

Construction Funds - Occasionally, Crittenden Livingston Water District is involved in various ongoing construction projects. A bank account has been established for each project referred to as "Phases". Monies deposited to the construction account is reserved for construction of the appropriate phase. The balance as of December 31, 2017 was \$27,314. The District also maintains an equipment replacement account for capital expenditures. The balance of this account as of December 31, 2017 was \$21,039.

Regions Sinking Funds - The District maintains sinking accounts with Regions Bank for payments on the 2008 bond issuance and the 2013 flexible term financing. A monthly amount is transferred from the Rural Water Sinking Fund to meet the annual principal and interest obligations related to the previously mentioned financing. The balance held at Regions Bank for these purposes at December 31, 2017 was \$498,565.

Health Reimbursement Account - The District, in an effort to offset rising employee health insurance costs, has established a program, whereby, employees participate in a high-deductible healthcare plan with deductible amounts being paid by the District. At the beginning of each plan year, the amount of each employees deductible is set aside in a separate restricted bank account. As employees incur health care costs, amounts up to the per person deductible are reimbursed to the eligible employee from this account. Any excess left in the account at the end of the plan year is used to fund the maximum amount to be set aside for the following year. As of December 31, 2017, the balance in the Health Reimbursement Account was \$10,263.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

5. CAPITAL ASSETS

A summary of proprietary fund property, plant and equipment at December 31, 2017 for business-type activities follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-------------------|---------------------|----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 101,969 | \$ - | \$ - | \$ 101,969 |
| Construction in progress | 519,915 | - | (519,915) | - |
| Total capital assets, not being depreciated | <u>621,884</u> | <u>-</u> | <u>(519,915)</u> | <u>101,969</u> |
| Capital assets, being depreciated: | | | | |
| Lake and river intake | 888,411 | - | - | 888,411 |
| Pumping equipment | 307,236 | - | - | 307,236 |
| Water treatment structure | 6,900 | - | - | 6,900 |
| Water treatment equipment | 4,402,784 | - | - | 4,402,784 |
| Transportation equipment | 131,306 | - | - | 131,306 |
| Distribution reservoirs and pipe | 713,101 | 963,060 | - | 1,676,161 |
| Small equipment | 16,724 | 6,349 | - | 23,073 |
| Transmission and distribution mains | 14,116,182 | 12,000 | - | 14,128,182 |
| Lab equipment | 6,231 | - | - | 6,231 |
| Power operated equipment | 65,632 | - | - | 65,632 |
| Services | 6,012,089 | - | - | 6,012,089 |
| Meters and installation | 1,294,256 | 20,010 | - | 1,314,266 |
| Communication equipment | 124,256 | 22,660 | - | 146,916 |
| Hydrants | 228,940 | - | - | 228,940 |
| Office furniture and fixtures | 48,355 | - | - | 48,355 |
| Office building | 51,928 | - | - | 51,928 |
| Total capital assets, being depreciated | <u>28,414,331</u> | <u>1,024,079</u> | <u>-</u> | <u>29,438,410</u> |
| Less accumulated depreciation for: | | | | |
| Lake and river intake | (175,621) | (17,770) | - | (193,391) |
| Pumping equipment | (119,142) | (19,156) | - | (138,298) |
| Water treatment structure | (3,273) | (685) | - | (3,958) |
| Water treatment equipment | (1,626,861) | (87,965) | - | (1,714,826) |
| Transportation equipment | (89,680) | (17,832) | - | (107,512) |
| Distribution reservoirs and pipe | (242,119) | (18,247) | - | (260,366) |
| Small equipment | (15,165) | (224) | - | (15,389) |
| Transmission and distribution mains | (4,647,687) | (282,364) | - | (4,930,051) |
| Lab equipment | (4,827) | (109) | - | (4,936) |
| Power operated equipment | (65,632) | - | - | (65,632) |
| Services | (1,913,202) | (171,766) | - | (2,084,968) |
| Meters and installation | (500,778) | (36,655) | - | (537,433) |
| Communication equipment | (34,517) | (6,130) | - | (40,647) |
| Hydrants | (88,247) | (4,676) | - | (92,923) |
| Office furniture and fixtures | (42,666) | (767) | - | (43,433) |
| Office building | (30,659) | (1,400) | - | (32,059) |
| Total accumulated depreciation | <u>(9,600,076)</u> | <u>(665,746)</u> | <u>-</u> | <u>(10,265,822)</u> |
| Total capital assets, being depreciated, net | <u>18,814,255</u> | <u>358,333</u> | <u>-</u> | <u>19,172,588</u> |
| Business-type activities capital assets, net | <u>\$ 19,436,139</u> | <u>\$ 358,333</u> | <u>\$ (519,915)</u> | <u>\$ 19,274,557</u> |

Depreciation charged to income was \$665,746.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

6. DEBT OBLIGATIONS

Revenue Bonds Payable

The Crittenden Livingston Water District Waterworks Revenue Bonds of 1995 (Series A) were issued in the amount of \$884,000 to finance the cost of the Phase 5 construction project (system additions). The bond maturity dates are January 1, 1998-2035. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

The Crittenden Livingston Water District Waterworks Revenue Bonds of 2000 (Series A) in the amount of \$2,000,000 were issued to finance the cost of the Phase 6b construction project (water plant). The bond maturity dates are January 1, 2003-2040. The interest rate is 4.5%. This issue was purchased by United States Department of Agriculture Rural Economic and Community Development.

In May 2008 Crittenden Livingston Water District issued Waterworks Revenue Bonds of 2008 (Series C) in the amount of \$1,920,000 to current refund revenue bonds 1998, 1991, 1994 & 1996 issuances. The current refunding met the requirement of an in-substance debt defeasance and the revenue bonds were removed from the District's financial statements.

The bond maturity dates are January 1, 2009-2030. This issue was purchased by Morgan, Keegan, and Company, Inc. Interest rates are shown below:

| <u>Year</u> | <u>Rate</u> | <u>Year</u> | <u>Rate</u> |
|-------------|-------------|-------------|-------------|
| 2009 | 2.35% | 2020 | 4.050% |
| 2010 | 2.55% | 2021 | 4.050% |
| 2011 | 3.05% | 2022 | 4.175% |
| 2012 | 3.05% | 2023 | 4.175% |
| 2013 | 3.30% | 2024 | 4.300% |
| 2014 | 3.30% | 2025 | 4.300% |
| 2015 | 3.55% | 2026 | 4.300% |
| 2016 | 3.55% | 2027 | 4.425% |
| 2017 | 4.05% | 2028 | 4.425% |
| 2018 | 4.05% | 2029 | 4.550% |
| 2019 | 4.05% | 2030 | 4.550% |

The bonds are secured and payable from an exclusive pledge of a fixed portion of gross revenues of the Waterworks System as now or hereafter constituted and additionally secured by a statutory lien on the Waterworks System.

In March 2013, the District entered into a flexible term finance program with Kentucky Rural Water to refinance the 2004 D Kentucky Rural Water Finance Corporation Bonds, with an interest rate of 3.120%-4.620%, and the 2000 B, with an interest rate of 4.75%, and 2000 C Rural Development Bonds with an interest rate of 4.500%. The total loan amount of \$5,780,000 is divided into two separate loans. The amount of \$3,690,000 is a 15 year loan with a variable interest rate of 2.30% to 4.80%. Principal repayment began in 2014, and the loan will be paid out in 2029. The remaining loan amount of \$2,090,000 is a 27 year loan with a variable interest rate of 2.30% to 4.80%. Principal repayment began in 2014, and the loan will be paid out in 2040.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

The \$2,090,000 current refunding decreased the total debt service until maturity in the amount of \$439,222. This resulted in an average annual cash savings of \$15,687.

The \$3,690,000 current refunding decreased the total debt service until maturity in the amount of \$546,472. This resulted in an average annual cash savings of \$34,154.

The schedule of bonds payable and the maturity schedule follows:

| Description | Balance 12/31/2016 | Payments | Balance 12/31/2017 | Due in One Year |
|-----------------------------------|-----------------------|-------------------|-----------------------|--------------------|
| Waterworks Revenue Bonds | | | | |
| 1995 Issue (Series A) | \$ 631,000 | \$ 21,000 | \$ 610,000 | \$ 22,000 |
| 2000 Issue (Series A) | 1,605,000 | 39,000 | 1,566,000 | 40,000 |
| 2008 Bonds | 1,150,000 | 110,000 | 1,040,000 | 115,000 |
| 2013 Flexible Term Financing | 3,100,000 | 195,000 | 2,905,000 | 200,000 |
| 2013 Flexible Term Financing | 1,980,000 | 55,000 | 1,925,000 | 55,000 |
| Subtotal | 8,466,000 | 420,000 | 8,046,000 | 432,000 |
| Reoffering premium 2013 Financing | 179,331 | - | 145,177 | - |
| Total Bonds Payable | <u>\$ 8,645,331</u> | <u>\$ 420,000</u> | <u>\$ 8,191,177</u> | <u>\$ 432,000</u> |

Principal and interest requirements of the revenue bonds payable as of December 31, 2017 are:

| Year Ending December 31, | Principal | Interest & Fees | Total |
|-----------------------------|---------------------|---------------------|----------------------|
| 2018 | \$ 432,000 | \$ 320,660 | \$ 752,660 |
| 2019 | 425,000 | 302,333 | 727,333 |
| 2020 | 443,000 | 283,784 | 726,784 |
| 2021 | 461,000 | 264,466 | 725,466 |
| 2022 | 510,000 | 243,601 | 753,601 |
| 2023-2027 | 2,444,000 | 892,882 | 3,336,882 |
| 2028-2032 | 1,618,000 | 469,698 | 2,087,698 |
| 2033-2036 | 1,064,000 | 232,049 | 1,296,049 |
| 2037-2040 | 649,000 | 36,161 | 685,161 |
| Total | <u>\$ 8,046,000</u> | <u>\$ 3,045,634</u> | <u>\$ 11,091,634</u> |

Kentucky Infrastructure Authority Notes Payable

Kentucky Infrastructure Authority (KIA) note dated November 1, 2001, at 1.8%, payable in 40 semiannual payments including principal and interest. Loan funds advanced were used on an interim basis to finance the construction of extensions, additions, and improvements to the existing waterworks system.

In August 2011, Crittenden Livingston Water District was approved for a loan to replace all existing meters with meters utilizing radio-read technology. The total cost of the project is not to exceed \$300,000 and will be financed by the Kentucky Infrastructure Authority under a loan bearing interest at 2%.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

In July 2016, Crittenden Livingston Water District was approved for a loan to construct the Moore Hill water tank. The total cost of the project was \$978,850 and will be financed by the Kentucky Infrastructure Authority under a loan bearing interest at 1.75%.

The schedule of notes payable and the maturity schedule follows:

| | Balance 12/31/2016 | Proceeds | Principal Payments | Balance 12/31/2017 | Due Within One Year |
|-----------------------------|-----------------------|-------------------|-----------------------|-----------------------|------------------------|
| KIA | \$ 568,260 | \$ - | \$ 76,882 | \$ 491,378 | \$ 78,272 |
| KIA - Radio-Read Meters | 255,733 | - | 13,224 | 242,509 | 13,490 |
| KIA - Moore Hill Water Tank | <u>517,290</u> | <u>461,560</u> | <u>18,364</u> | <u>960,486</u> | <u>41,723</u> |
| Subtotal | 1,341,283 | 461,560 | 108,470 | 1,694,373 | 133,485 |
| KIA - Premium | - | <u>27,882</u> | - | <u>27,555</u> | - |
| Total Notes Payable | <u>\$ 1,341,283</u> | <u>\$ 489,442</u> | <u>\$ 108,470</u> | <u>\$ 1,721,928</u> | <u>\$ 133,485</u> |

Annual debt service requirements for leases payable to maturity are as follows:

| Year Ending December 31, | Principal | Interest & Fees | Total |
|-----------------------------|---------------------|--------------------|---------------------|
| 2018 | \$ 133,485 | \$ 32,685 | \$ 166,170 |
| 2019 | 135,905 | 30,206 | 166,111 |
| 2020 | 138,369 | 27,608 | 165,977 |
| 2021 | 140,877 | 24,963 | 165,840 |
| 2022 | 143,431 | 22,270 | 165,701 |
| 2023-2027 | 398,922 | 80,341 | 479,263 |
| 2028-2032 | 342,888 | 45,732 | 388,620 |
| 2033-2037 | <u>260,496</u> | <u>12,818</u> | <u>273,314</u> |
| Total | <u>\$ 1,694,373</u> | <u>\$ 276,623</u> | <u>\$ 1,970,996</u> |

Leases

The Fiscal Court of Livingston County, Kentucky, in an Ordinance passed and adopted on August 24, 2010, authorized a plan to payoff a short term note of the Crittenden Livingston Water District in the amount of \$2,500,000 with funds provided to the County by the Kentucky Association of Counties Finance Corporation through a financing agreement between the county and KACO. The amount of \$2,560,000 carries a variable interest rate of 4.15% - 5.00% and matures February 1, 2039.

On September 19, 2017, the District entered into an agreement with Kentucky Association of Counties Finance Corporation to issue Revenue Bonds, 2017 First Series C. The proceeds were used to replace the Series 2010A Lease with Kentucky Association of Counties Finance Corporation, a short term note, the proceeds of which were used to run approximately 90 miles of waterline in Crittenden and Livingston County. The new bonds were issued for \$2,445,000, carry an interest rate of 3.03%, and matures January 1, 2039.

| | Balance 12/31/2016 | Proceeds | Principal Payments | Balance 12/31/2017 | Due Within One Year |
|----------------------|-----------------------|---------------------|-----------------------|-----------------------|------------------------|
| KACO - 2010A | \$ 2,259,584 | \$ - | \$ 2,259,584 | \$ - | \$ - |
| KACO - 2017C | - | <u>2,445,000</u> | <u>70,000</u> | <u>2,375,000</u> | <u>68,750</u> |
| Total Leases Payable | <u>\$ 2,259,584</u> | <u>\$ 2,445,000</u> | <u>\$ 2,329,584</u> | <u>\$ 2,375,000</u> | <u>\$ 68,750</u> |

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

Annual debt service requirements for leases payable to maturity are as follows:

| Year Ending December 31, | Principal | Interest & Fees | Total |
|-----------------------------|---------------------|---------------------|---------------------|
| 2018 | \$ 68,750 | \$ 84,258 | \$ 153,008 |
| 2019 | 75,000 | 88,584 | 163,584 |
| 2020 | 79,583 | 85,085 | 164,668 |
| 2021 | 80,000 | 80,918 | 160,918 |
| 2022 | 84,583 | 76,718 | 161,301 |
| 2023-2027 | 497,917 | 311,731 | 809,648 |
| 2028-2032 | 603,750 | 209,546 | 813,296 |
| 2033-2036 | 707,917 | 106,468 | 814,385 |
| 2037-2039 | 177,500 | 3,877 | 181,377 |
| Total | <u>\$ 2,375,000</u> | <u>\$ 1,047,185</u> | <u>\$ 3,422,185</u> |

Leased equipment under capital lease in capital assets at December 31, 2017, included the following:

| | |
|--------------------------------|---------------------|
| Facilities and equipment | \$ 3,455,798 |
| Less: Accumulated depreciation | <u>1,086,425</u> |
| Net | <u>\$ 2,369,373</u> |

Amortization of leased facilities and equipment is included in depreciation expense.

Interest expense recognized in the year ending December 31, 2017 is \$464,318.

7. EMPLOYEES' RETIREMENT PLAN

County Employees' Retirement System

Plan description. The Crittenden-Livingston County Water District is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems Board of Trustees (KRS Board) established pursuant to Kentucky Revised Statutes (KRS) Section 78.630. KRS Section 61.645 grants the authority to establish and amend the benefit terms to the Kentucky Retirement Systems (Board). All District employees participating in the CERS are classified as having either a hazardous or nonhazardous position for the purpose of KRS 61.592. Kentucky Retirement Systems issues a publicly available comprehensive annual financial report containing CERS information that can be obtained at <https://kyret.ky.gov>.

Benefits provided. Nonhazardous position employees who have attained age 65 and have acquired at least 4 years of credit service of which 1 year must be current service are eligible for an annual retirement benefit, payable monthly for life. The benefit is computed by the number of years of service multiplied by 1.85% then multiplied by the average annual salary during the member's five highest paid fiscal years. Benefits fully vest upon reaching 5 years of credited service, one of which must be current service. Vested members may retire at or after age 55 with 5 years of credited service, of which 1 year must be current service, and receive reduced benefits. CERS also provides death and disability benefits. Benefits are established by the Kentucky Statutes.

If a member's employment is terminated before the member is eligible for any other benefits under CERS, the member shall receive a refund of his/her member contributions with credited interest at 3% compounded annually through June 30, 1981, 6% thereafter through June 30, 1986, and 4%

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

thereafter.

Funding policy. Covered employees who began participating prior to September 1, 2008, are required by state statute to contribute 5% of their salary to CERS. Covered employees who began participating on, or after, September 1, 2008, are required by state statute to contribute 6% of their salary to CERS. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund.

Covered employees who began participation on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Covered employees in the plan contribute a set percentage of their salary each month to their own account. Employee contribution rates are 5% for those classified as nonhazardous and 1% to the health insurance fund which is not credited to the employee's account and is not refundable. The employer contribution rate is set annually by the KRS Board based on an actuarial valuation. The employer contributes a set percentage of the employee's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the employee's account equal to 4% for those classified as nonhazardous. The employer pay credit represents a portion of the total employer contribution.

Employers are required by state statute (KRS 78.545) to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the KRS Board annually based upon actuarial valuations. For the year ended December 31, 2017, the employer contribution rate was 18.68% and 19.18%, respectively, of member's nonhazardous and hazardous salaries. The employer contribution when combined with employee contributions are expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. District employer CERS pension contributions for the year ended December 31, 2017 were \$63,103 which was 100% funded.

Refunds of contributions. Employees who have terminated service as a contribution member of CERS may file an application for a refund of their contributions. Employee accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1981; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter. For employees participating prior to September 1, 2008, the interest paid is set by the KRS Board and will not be less than 2%, for employees participating on or after September 1, 2008 but before January 1, 2014, interest will be credited at a rate of 2.5%. For employees participating on or after January 1, 2014, interest will be credited at a minimum rate of 4%.

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 \$1,119,796 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's share of contributions to CERS relative to the total contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was .0019131%, which was an increase of 0.001157% from its proportion measured June 30, 2016.

Pension expense. As a result of its requirement to contribute to CERS, the District recognized pension expenses of \$226,954 for the year ended December 31, 2017. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Net differences between expected and actual experience | \$ 1,389 | \$ 28,425 |
| Net differences between projected and actual investment earnings | 88,687 | 74,836 |
| Change of assumption | 206,633 | - |
| Changes in proportion and differences between employer contributions and share of contributions | 65,858 | 6,308 |
| Contributions subsequent to the measurement date | <u>42,627</u> | <u>-</u> |
| Totals | <u>\$ 405,194</u> | <u>\$ 109,569</u> |

Deferred Outflows of Resources. The \$42,627 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year 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:

| <u>Years Ending</u> | |
|---------------------|-------------------|
| December 31, 2018 | \$ 115,055 |
| December 31, 2019 | 107,683 |
| December 31, 2020 | 44,639 |
| December 31, 2021 | <u>(14,379)</u> |
| Total | <u>\$ 252,998</u> |

Actuarial assumptions. For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuation results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication, subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

| | |
|-------------------------------|---|
| Valuation date | June 30, 2015 |
| Experience study | July 1, 2008 - June 30, 2013 |
| Actual cost method | Entry age normal |
| Amortization method | Level percentage of pay |
| Remaining amortization period | 28 years, closed |
| Payroll growth rate | 4.00% |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 3.25% |
| Salary increases | 4.00%, average |
| Investment rate of return | 7.50% for CERS non-hazardous |

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.

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated August 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 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 cover a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change, absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Nominal Rate of Return |
|--|-------------------|----------------------------------|
| Combined Equity | 44% | 5.40% |
| Combined Fixed Income | 19% | 1.50% |
| Real Return (Diversified Inflation Strategies) | 10% | 3.50% |
| Real Estate | 5% | 4.50% |
| Absolute Return (Diversified Hedge Funds) | 10% | 4.25% |
| Private Equity | 10% | 5.25% |
| Cash | 2% | (0.25%) |
| | 100% | |

Discount Rate. The discount rate used to measure the total pension liability for the plan was 6.25%. 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 26 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

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

| | 1% Decrease 5.25% | Current Discount Rate 6.25% | 1% Increase 7.25% |
|---|-------------------------|-----------------------------------|-------------------------|
| The District's proportionate share of the net pension liability | \$ 1,412,305 | \$ 1,119,796 | \$ 875,115 |

Payables to the pension plan. At December 31, 2017, the financial statements include \$12,453 in contractually required employee and employer contributions primarily for the month ended December 31, 2017. The obligation was paid within prescribed time limits.

Postretirement healthcare benefits. In addition to the pension benefits described above, the KRS provides postretirement healthcare benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund). The Insurance Fund was established to provide hospital and medical insurance for those receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the year ended June 30, 2017 (the date of the latest available information), insurance premiums withheld from benefit payments for those receiving benefits from CERS were \$22,900,000 for nonhazardous, respectively. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

spouse and dependents of retired hazardous employees killed in the line of duty. As of June 30, 2017, the Insurance Fund had 106,234 retirees and beneficiaries for whom benefits were available.

The amount of contributions paid by the Insurance Fund is based on years of service. For employees participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are shown below:

| <u>Service Period</u> | <u>% paid by Insurance Fund</u> |
|-----------------------|-------------------------------------|
| 20 or more years | 100% |
| 15-19 years | 75% |
| 10-14 years | 50% |
| 4-9 years | 25% |
| Less than 4 years | 0% |

As a result of House Bill 290 (2004) Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Once employees reach a minimum vesting period of ten years, nonhazardous 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. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

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

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

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

8. COMMITMENTS

Sales Contracts

In 2000, the District entered into a 40 year sales agreement with the City of Grand Rivers, Kentucky. The agreement is for the City to purchase five million gallons per month. The City purchased water totaling \$252,500 in the year ending December 31, 2017.

In 2000, the District entered into a 40 year sales agreement with the City of Smithland, Kentucky. The agreement is for the City to purchase one million gallons per month. The City purchased water totaling \$33,299 in the year ending December 31, 2017.

In 2000, the District entered into a 40 year sales agreement with the City of Ledbetter, Kentucky. The agreement is for the City to purchase three million gallons per month. The City purchased water totaling \$93,782 in the year ending December 31, 2017.

In 2016, the District entered into a 41 year sales agreement with the Lyon County Water District. The agreement does not have per month minimum. The District purchased \$30,394 of water in the year ending December 31, 2017.

In 1971, the District entered into a sales agreement with the City of Salem, Kentucky. The agreement does not have per month minimum. The City purchased \$62,978 of water in the year ending December 31, 2017.

9. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2016 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

10. ECONOMIC DEPENDENCIES

The majority of the District's revenue consists of charges for water-related services to customers in Crittenden-Livingston County, Kentucky. For the year ended December 31, 2017, the revenues from these sources totaled \$2,351,468.

Crittenden-Livingston County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2017

11. COMPENSATED ABSENCES

The District grants employees vacation time based on years of service. Full-time employees, with one (1) year continuous service, are entitled to vacation pay according to the following schedule:

- Anniversary of 1 year of service - 5 days
- Anniversary of 2 years of service - 10 days
- Anniversary of 5 years of service - 15 days
- Anniversary of 10 years of service - 20 days

Vacation must be taken in the calendar year of eligibility. The policy applies to all employees. All employees must make an effort to take their vacation time.

The District's policy on personal days is to allow employees three days per year. This can be used for anything from sickness to family emergencies.

An employee may reserve overtime as comp time. One hour of overtime equals 1 and 1/2 hours of comp time. A maximum of 60 hours may be accumulated.

12. LITIGATION

On July 13, 2015, litigation was brought against Crittenden-Livingston County Water District. The litigation involves a water purchase contract dispute with another water district that is a customer. Currently, the other water district is contracted to purchase 3,000,000 gallons a month for 40 years from Crittenden-Livingston County Water District. Although the contract between the water districts began on January 24, 2000, the plaintiff contends the contract is void. If the water purchase contract is ultimately ruled void, and, if no water is purchased by this customer then Crittenden-Livingston County Water District could have a reduction of \$92,880 of current minimum annual gross revenue or \$53,640 of current minimum net operating income. The likelihood of any loss of revenue, or net operating income, concerning this water contract dispute is unknown at this time. As of December 31, 2017, this is still unresolved.

13. SUBSEQUENT EVENTS

On January 25, 2017, the Livingston County Circuit Court issued an Order finding Movant, Ledbetter Water District has the authority to franchise for water within its boundaries and the Contract is an unconstitutional franchise. Respondent, Crittenden-Livingston Water District, timely appealed to the Court of Appeals. On August 17, 2018, the Court of Appeals issued the Opinion reversing Livingston Circuit Court. In the Opinion, relying upon precedent previously established, the Court of Appeals held that KRS 164 is inapplicable to contracts between non-profit governmental entities and only applies where a governmental entity contracts with a private entity or individual. On September 11, 2018, Movant filed the instant Motion for Discretionary Review with this Court. The Respondent contends the "Movant has merely reiterated the same arguments rejected by the Court of Appeals and failed to meet its burden under CR 76.20(1) to provide a special reason for review of this case. Movant merely asks this Court to review an opinion with which the Movant is dissatisfied. This falls well short of a special reason. In short, there is no reason for this Court to review this case." Accordingly, Respondent has respectfully requested that Movant's Motion for Discretionary Review be denied.

REQUIRED SUPPLEMENTARY INFORMATION

Crittenden-Livingston County Water District
Schedule of the Proportionate Share
of the Net Pension Liability
For the Year Ended December 31, 2017

County Employee Retirement System
Last Four Years (1)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------|-------------|-------------|-------------|
| Employer's proportion of the net pension liability (asset) | 0.019131% | 0.01797% | .016029% | 0.008651% |
| Employer's proportionate share of the net pension liability (asset) | \$ 1,119,796 | \$ 884,966 | \$ 689,178 | \$ 280,671 |
| Employer's covered-employee payroll | \$ 443,619 | \$ 469,149 | \$ 375,904 | \$ 204,010 |
| Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 223.65% | 188.63% | 183.34% | 137.58% |
| Plan fiduciary net position as a percentage of the total pension liability (2) | 53.30% | 55.50% | 59.97% | 66.80% |

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

(1) The amounts presented for the fiscal year were determined as of the fiscal year ending June 30, 2017.

(2) This will be the same percentage for all participant employers in the CERS plan.

SEE AUDITOR'S REPORT AND NOTES TO THE FINANCIAL STATEMENTS.

Crittenden-Livingston County Water District
Schedule of Pension Contributions
For the Year Ended December 31, 2017

County Employee Retirement System
Last Four Years

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| Contractually required contribution | \$ 63,013 | \$ 61,650 | \$ 47,585 | 74,682 |
| Contributions in relation to the contractually required contribution | <u>63,013</u> | <u>61,650</u> | <u>47,585</u> | <u>74,682</u> |
| Contribution deficiency (excess) | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |
| Employer's covered-employee payroll | \$ 443,619 | \$ 469,149 | \$ 375,904 | \$ 393,724 |
| Contribution as a percentage of covered-employee payroll | 18.68%/ 19.18% | 17.06%/ 18.68% | 17.67%/ 17.06% | 18.89%/ 17.67% |

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

SEE AUDITOR'S REPORT AND NOTES TO THE FINANCIAL STATEMENTS.

Notes to the Required Supplementary Information

Notes Related to Schedule of the Crittenden-Livingston County Water District's Proportionate Share of the Net Pension Liability - County Employee Retirement System of the KRS

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015: None

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined 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 rate of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience

Notes to the Schedule of the Crittenden-Livingston County Water District's Contributions - County Employee Retirement Systems of KRS

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

| | |
|-------------------------------|---|
| Valuation date | June 30, 2015 |
| Experience study | July 1, 2008 - June 30, 2013 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll |
| Remaining amortization period | 28 years, closed |
| Payroll growth rate | 4.00% |
| Asset valuation | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 3.25% |
| Salary increase | 4.00%, average |
| Investment Rate of Return | 7.50% for CERS non-hazardous |

SEE AUDITOR'S REPORT AND NOTES TO THE FINANCIAL STATEMENTS.

OTHER SUPPLEMENTARY INFORMATION

Crittenden-Livingston County Water District
Statement of Revenues, Expenses, and
Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2017

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|------------------|---------------------|--|
| <u>Revenues:</u> | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Water revenues | \$ 2,301,046 | \$ 2,301,046 | \$ 2,351,468 | \$ 50,422 |
| Other revenue | 65,000 | 65,000 | 66,275 | 1,275 |
| Total Operating Revenues | <u>2,366,046</u> | <u>2,366,046</u> | <u>2,417,743</u> | <u>51,697</u> |
| <u>Operating Expenses</u> | | | | |
| Transmission and distribution expenses | 634,000 | 634,000 | 675,970 | (41,970) |
| Depreciation | 650,000 | 650,000 | 665,746 | (15,746) |
| Administrative and general expenses | 453,600 | 453,600 | 612,727 | (159,127) |
| Water treatment | 129,000 | 129,000 | 135,966 | (6,966) |
| Payroll and other taxes | 34,500 | 34,500 | 38,942 | (4,442) |
| Customer accounts expenses | 23,000 | 23,000 | 18,167 | 4,833 |
| Bad debt expense | 4,000 | 4,000 | 413 | 3,587 |
| Total Operating Expenses | <u>1,928,100</u> | <u>1,928,100</u> | <u>2,147,931</u> | <u>(219,831)</u> |
| <u>Operating Income (Loss)</u> | <u>437,946</u> | <u>437,946</u> | <u>269,812</u> | <u>(168,134)</u> |
| <u>Nonoperating Revenues (Expenses)</u> | | | | |
| Investment income | 700 | 700 | 1,681 | 981 |
| Grant revenue | - | - | 98,518 | 98,518 |
| Interest on debt | (467,846) | (467,846) | (464,318) | 3,528 |
| Total Nonoperating Revenue (Expenses) | <u>(467,146)</u> | <u>(467,146)</u> | <u>(364,119)</u> | <u>103,027</u> |
| <u>Net Income before Capital Contributions</u> | <u>(29,200)</u> | <u>(29,200)</u> | <u>(94,307)</u> | <u>(65,107)</u> |
| <u>Capital Contributions</u> | <u>29,200</u> | <u>29,200</u> | <u>46,020</u> | <u>16,820</u> |
| <u>Change in Net Position</u> | <u>\$ -</u> | <u>\$ -</u> | <u>(48,287)</u> | <u>\$ (48,287)</u> |
| <u>Net Position-Beginning of Year</u> | | | <u>7,547,435</u> | |
| <u>Net Position-End of Year</u> | | | <u>\$ 7,499,148</u> | |

SEE AUDITOR'S REPORT AND NOTES TO THE FINANCIAL STATEMENTS.

Crittenden-Livingston County Water District
Detail Schedule of Operating Expenses
For the Year Ended December 31, 2017

| | |
|--|----------------------------|
| <u>Depreciation expense</u> | \$ <u>665,746</u> |
| <u>General operating expenses</u> | |
| Retirement | 226,954 |
| Salaries & wages | 124,914 |
| Employee insurance | 88,372 |
| Legal & professional | 39,293 |
| Insurance | 35,550 |
| Repairs & maintenance | 31,735 |
| Office supplies | 20,771 |
| Utilities | 16,623 |
| Fuel | 15,919 |
| PSC assessment | 4,553 |
| Seminar | 2,500 |
| Bank charges | 2,203 |
| Miscellaneous | 1,640 |
| Dues & subscriptions | 1,700 |
| Total general operating expenses | <u>612,727</u> |
| <u>Transmission and distribution expenses</u> | |
| Salaries & wages | 374,311 |
| Repairs & maintenance | 141,929 |
| Utilities | 134,461 |
| Supplies & materials | 25,269 |
| Total water expenses | <u>675,970</u> |
| <u>Payroll and other taxes</u> | <u>38,942</u> |
| <u>Customer accounts expenses</u> | |
| Postage | 18,167 |
| Total customer accounts expenses | <u>18,167</u> |
| <u>Water treatment</u> | |
| Chemicals | 124,799 |
| Testing | 11,167 |
| Total water treatment | <u>135,966</u> |
| <u>Bad debt expense</u> | <u>413</u> |
| <u>Total operating expenses</u> | \$ <u><u>2,147,931</u></u> |

SEE AUDITOR'S REPORT AND 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

Members of the Board of Commissioners
Crittenden Livingston County 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 Crittenden Livingston County Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Crittenden Livingston County Water District's basic financial statements, and have issued our report thereon dated January 16, 2019.

Internal Control over Financial Reporting

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

Crittenden Livingston County Water District's Response to Finding(s)

Crittenden Livingston County Water District's Response to the finding(s) identified in our audit are described in the accompanying schedule of finding(s). Crittenden Livingston County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read 'M. A. FSC', is written over the printed name.

Mayfield, KY
January 16, 2019

**CRITTENDEN LIVINGSTON COUNTY WATER DISTRICT
SCHEDULE OF FINDING(S)
For the Fiscal Year Ended December 31, 2017**

2016-1 – Lack of Segregation of Duties

Statement of Condition:

Due to the size of administrative staff, internal control is limited and adequate segregation of duties does not exist.

Criteria:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that money received and disbursed is safeguarded against loss from unauthorized use, and that transactions are excluded in accordance with management's authorization.

Cause:

The staff size of the Crittenden Livingston County Water District limits the ability to rotate duties and implement certain checking procedures.

Effect:

This limitation may affect the Water District's ability to record, process, summarize and report financial data consistent with management's authorization. The possibility of the Water District's funds being misappropriated by a single employee is increased.

Recommendation:

Management should strive to separate duties, including procedures related to the deposit functions and to the reconciliation of the bank statements to the books (check book, etc.); and procedures related to the receipt of unopened bank statements and review of the bank statement transactions by a person not involved in the deposit of funds and/or signing of checks.

View(s) of Responsible Officials and Planning Corrective Actions:

We concur with the recommendation and finding. The District Board will discuss the matter with key personnel.