

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
FRANKFORT, KENTUCKY 40601

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	3-4
MANAGEMENT DISCUSSION AND ANALYSIS	5-12
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	13-14
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	15-16
STATEMENT OF CASH FLOWS	17-18
NOTES TO FINANCIAL STATEMENTS	19-35
FEDERAL AWARDS INFORMATON	
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	36-38
REQUIRED SUPPLEMENTAL INFORMATION	
REQUIRED SUPPLEMENTAL INFORMATION	
SCHEDULE OF PROPORTIONATE SHARE ON NET PENSION LIABILITY	39
SCHEDULE OF CONTRIBUTIONS TO CERS	40

HARROD & ASSOCIATES, P.S.C.

Certified Public Accountants

#2 HMB CIRCLE, SUITE A
FRANKFORT, KENTUCKY 40601

TEL. (502) 695-7300

FAX (502) 695-9125

MEMBER
AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

Board of Directors
Farmdale Water District
Frankfort, Kentucky 40601

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Farmdale Water District (District), a nonprofit governmental organization, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Farmdale Water Districts 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 of material misstatement.

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

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

Opinions

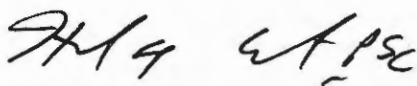
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Farmdale Water District as of December 31, 2017 and 2016, and the respective changes in its net position and its cash flows for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

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, the Schedule of the Districts Proportionate Share of the CERS Net Pension Liability on page 39 and Schedule of Contributions to CERS on page 40 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 this information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2018 on our consideration of the 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 solely 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 District's internal control over financial reporting and compliance.



Harrod & Associates, PSC
Frankfort, KY 40601

May 29, 2018
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FARMDALE WATER DISTRICT
Management Discussion and Analysis
For the Years Ended December 31, 2017 & 2016

The following discussion and analysis of the Farmdale Water District's (District) financial performance provides an overview of the financial activities for the years ended December 31, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

The District was established in May, 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, Farmdale collects fees for several sewer treatment plants.

In October 2012, Farmdale began the process of installing meters which can be read by radio waves, building a water tower with increased storage capacity and installing new pipe from the pump station. The District financed these improvements via company funds, grants from Kentucky Infrastructure Authority and loans from Regions Bank via U. S. Department of Agriculture. The loan from Regions Bank was repaid in April with loan funds from the U. S. Department of Agriculture. The principle repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013. In addition, beginning in August of 2017 the District installed two master meters in order to detect water leaks and manage the water loss the District has been experiencing.

Financial Highlights

In 2017, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,929,535. Of this amount \$1,825,836 was invested in Capital Assets, \$39,600 restricted for debt retirement, and \$1,064,099 was unrestricted. In 2017, the Board's net assets decreased (\$178,497), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

In 2016, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,108,032. Of this amount \$2,015,815 was invested in Capital Assets, \$29,700 restricted for debt retirement, and \$1,062,517 was unrestricted. In 2016, the Board's net assets decreased (\$131,971), primarily through payroll, employee benefits, depreciation and the cost of purchased water.

Revenues

Gross income from the sale of water, including tap on fees and reconnect fees totaled \$1,231,246 and \$1,203,810 for the calendar years 2017 and 2016 respectively. The Kentucky Public Service Commission (PSC) approved one rate increase each in 2017 and 2016, all of these requests were in response to increases in the cost of water purchased from the Frankfort Plant Board. The rate increase in 2017 was effective in November, while in 2016, the increase was effective in December.

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2017 & 2016

Expenses

Operating expenses were \$1,457,552 and \$1,378,739 for the calendar years 2017 and 2016, respectively.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as “Water Purchased”, “Transmission and Distribution”, “Administrative and General Expense”, “Maintenance and Repairs”, “Taxes and Licenses” and “Employee Benefits”. They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of a construction project having a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,650 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District’s three commissioners to serve four year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The Board’s financial statements are comprised of two components:

- >Financial Statements
- >Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. The Statement of Net Position presents information on the Board’s assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.
2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Farmdale’s net assets changed based on current year activity. Results of the Board’s operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board’s revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2017 & 2016

Financial Overview (continued)

some future year. This is the “accrual” basis of accounting and is further explained in Note 1C.

3. The Statement of Cash Flows presents the cash flow changes occurring during the fiscal years 2017 and 2016 in highly liquid cash. “Highly liquid” means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 19 through 35 of this report.

Statement of Net Position Overview

The District was not required to have an audit under A-133 for 2017 or 2016.

Statement of Net Position	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
Capital Assets	3,684,320	3,873,816	(189,496)	(4.89%)
Current and Other Assets	1,555,878	1,543,416	12,462	0.81%
Other Assets	<u>88,849</u>	<u>61,301</u>	<u>27,548</u>	44.94%
Total Assets	<u>5,329,047</u>	<u>5,478,533</u>	<u>(149,486)</u>	(2.73%)
Long-term Liabilities	1,769,000	1,793,000	(24,000)	(1.34%)
Other Liabilities	<u>630,512</u>	<u>577,501</u>	<u>53,011</u>	9.18%
Total Liabilities	<u>2,399,512</u>	<u>2,370,501</u>	<u>29,011</u>	1.22%
Net Position:				
Invested in Capital Assets	1,826,318	2,015,815	(189,497)	(9.40%)
Restricted	39,600	29,700	9,900	33.33%
Unrestricted	<u>1,063,617</u>	<u>1,062,517</u>	<u>1,100</u>	.10%
Total Net Position	<u>2,929,535</u>	<u>3,108,032</u>	<u>(178,497)</u>	(5.74%)

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2017 & 2016

Financial Overview (continued)

Statement of Net Position Overview (continued)

The District was not required to have an audit under A-133 for 2016 or 2015.

Statement of Net Position	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% Change</u>
Capital Assets	3,873,816	4,091,895	(218,079)	(5.33%)
Current and other assets	1,543,416	1,434,758	108,658	7.57%
Other Assets	<u>61,301</u>	<u>54,054</u>	<u>7,247</u>	13.41%
Total Assets	<u>5,478,533</u>	<u>5,580,707</u>	<u>(102,174)</u>	(1.83%)
Long-term Liabilities	1,793,000	1,815,500	(22,500)	(1.24%)
Other Liabilities	<u>577,501</u>	<u>525,704</u>	<u>52,297</u>	9.96%
Total Liabilities	<u>2,370,501</u>	<u>2,340,704</u>	<u>29,797</u>	1.27%
Net Position:				
Invested in Capital Assets	2,015,815	2,233,894	(218,079)	(9.76%)
Restricted	29,700	19,800	9,800	0.50%
Unrestricted	<u>1,062,517</u>	<u>986,309</u>	<u>76,208</u>	7.73%
Total Net Position	<u>3,108,032</u>	<u>3,240,003</u>	<u>(131,971)</u>	(4.07%)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Statement of Rev. Exp. and Changes in Net Position	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues	1,231,246	1,203,810	27,436	2.28%
Operating Expenses	<u>1,457,552</u>	<u>1,378,739</u>	<u>78,813</u>	5.72%
Operating Income/(Loss)	<u>(226,306)</u>	<u>(174,929)</u>	<u>(51,377)</u>	(29.37%)
Net Non-Operating Income	<u>47,809</u>	<u>42,958</u>	<u>4,851</u>	11.29%
Change in Net Position	<u>(178,497)</u>	<u>(131,971)</u>	<u>(46,526)</u>	(35.25%)

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2017 & 2016

Statement of Revenues, Expenses, and Changes in Net Position Overview (continued)

Statement of Rev. Exp. and Changes in Net Position	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues	1,203,810	1,225,181	(21,371)	(1.74%)
Operating Expenses	<u>1,378,739</u>	<u>1,383,147</u>	<u>(4,408)</u>	<u>(.32%)</u>
Operating Income/(Loss)	<u>(174,929)</u>	<u>(157,966)</u>	<u>(16,963)</u>	(10.74%)
Net Non-Operating Income	<u>42,958</u>	<u>51,200</u>	<u>(8,242)</u>	(16.10%)
Change in Net Position	<u>(131,971)</u>	<u>(106,766)</u>	<u>(25,205)</u>	(23.61%)

Assets

In 2017, the District's total assets decreased \$149,486 from FY 2016. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Cash" used to meet normal operating expenses.

In 2016, the District's total assets decreased \$102,174 from FY 2015. The Audit Report indicates the major decreases were in "Fixed Assets" due to depreciation and the largest decreases were in "Certificates of Deposits" used to meet normal operating expenses.

Liabilities

In 2017, the District's total liabilities increased \$29,011 from FY 2016. The Audit Report indicates the major changes were in "Net Pension Liability" and "Deferred Inflows". Net Pension Liability increased \$57,328 which explains the increase.

In 2016, the District's total liabilities increased \$29,797 from FY 2015. The Audit Report indicates the major changes were in "Accounts Payables" and "Unearned Income". Accounts Payable increased \$35,128 which explains the increase.

Net Assets

The District's assets exceeded its liabilities by \$2,929,535 and \$3,108,032 for fiscal years ended December 31, 2017 and 2016, respectively. This represents a decrease from fiscal year 2016 to 2017 of (\$178,497) and 2015 to 2016 of (\$131,971). Increases or decreases in equity may, over time, serve as a useful indicator of the District's financial position. This statement comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2017 & 2016

Net Assets (continued)

cash flow. On the other hand, if you have sufficient cash flow, “investing” in your water system (maintaining, expanding, replacing, upgrading, etc.) or land is a good and prudent business practice.

Net assets reflect its investment in capital assets. The District uses these capital assets to provide services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the statement of net position will come from other sources, such as sales of water and sewer fees. The capital assets themselves cannot be used to pay such “long-term” liabilities.

Capital Assets

Capital Assets

The District’s investments in capital assets as of December 31, 2017, 2016 and 2015 amounted to \$3,684,320, \$3,873,816, and \$4,091,895 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included:

The District, through self funding, grants from Kentucky Infrastructure Authority and loans from the U.S. Department of Agriculture completed the following improvements to their system in 2013:

- Upgrades to the water line and pump station;
- Built a 500,000 gallon elevated water storage tank;
- Installed a Supervisory Control and Data Acquisition System which controls and monitors the pump stations and tanks; and
- Installed an automated meter reading system which will allow the District to read meters via radio waves.

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2017 & 2016

Debt Administration

Long-Term Debt

The District has entered into an agreement with the U. S. Department of Agriculture to borrow \$1,668,000 and a subsequent \$190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013 the District received the loan proceeds from the U. S. Department of Agriculture and paid off the Regions Bank loan. The District repaid principle of \$22,500 principal payment in January 2017 and \$21,500 in January 2016. The loan is a 40 year loan at 3.125% interest payable semi-annually.

Budget

Budget

KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water

The District, in 2017, installed completed a project which updated their ability to track water usage and loses for much of their system.

Administrative and General

The District continues to experience an increase in health care expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future.

The District currently had four full-time employees in 2016 and 2017. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary.

The District has experienced changes in the employer contribution rate to CERS for employee pension. The District contributed 19.18% of employees' gross compensation to the plan from July – December and 18.68% from January - June for the year ended December 31, 2017 and 18.68% for July – December and 17.67% from January - June during the year ended December 31, 2016. These rates are expected to continue to fluxuate with the state legislature currently being unable to find viable funding solutions to the plan's underfunding.

The Kentucky Retirement System Board of Trustees had originally set the contribution rate effective July 1, 2018 at 28.05%, however, with the passage of House Bill 362, the rate increases were limited to 12% per fiscal year. The rate for July 1, 2018 through June 30, 2019 is 21.48%.

FARMDALE WATER DISTRICT
Management Discussion and Analysis (Continued)
For the Years Ended December 31, 2017 & 2016

The Future (continued)

Overall

The District has implemented the system enhancements to improve the service it provides to their customers as well as increase their efficiency in operations. However, water loss was still at a very high rate averaging approximately 35.9% of purchased water throughout the year. Leaks in the old part of the system were the main source of these substantial losses. Management has taken action to find and repair leaks and the percentage loss dropped through the end of 2017. In fact, in March 2018 the District discovered a leak underneath U.S. 127 South which was losing approximately 150,000 gallons per day, this discovery should significantly reduce their water loss. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

Request for Information

This financial report is designed to provide government entities, customers and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: The Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017 & 2016

ASSETS

CURRENT ASSETS	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents (Note 1)	\$ 462,426	\$ 468,299
Cash - Debt Reserve (Note 9)	39,600	29,700
Certificates of Deposit (Note 1)	923,732	922,352
Accounts Receivable (Note 1)	96,036	94,530
Inventory (Note 1)	18,621	14,014
Accrued Interest Receivable	988	611
Prepaid Expenses	<u>14,475</u>	<u>13,910</u>
 TOTAL CURRENT ASSETS	 <u>1,555,878</u>	 <u>1,543,416</u>
 CAPITAL ASSETS (Note 3)		
Land & Buildings	55,431	55,431
Equipment	150,609	150,609
Vehicles	37,713	37,713
Water Lines, Hydrants, Towers, & Meters	6,048,617	6,010,029
Accumulated Depreciation	<u>(2,608,050)</u>	<u>(2,379,966)</u>
 TOTAL CAPITAL ASSETS	 <u>3,684,320</u>	 <u>3,873,816</u>
 DEFERRED OUTFLOWS (Note 4)		
Contributions Subsequent to Measurement Date	<u>88,849</u>	<u>61,301</u>
 TOTAL DEFERRED OUTFLOWS	 <u>88,849</u>	 <u>61,301</u>
 TOTAL ASSETS	 <u>\$ 5,329,047</u>	 <u>\$ 5,478,533</u>

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017 & 2016

LIABILITIES

CURRENT LIABILITIES	<u>2017</u>	<u>2016</u>
Accounts Payable	\$ 160,984	\$ 177,738
Customer Deposits	34,805	39,965
Customer Deposits - Accrued Interest (Note 6)	1,052	3,431
Accrued Sales Tax	545	600
Accrued School Tax	2,472	2,362
Accrued Payroll Tax	6,001	5,625
Accrued Pension Expense (Note 4)	3,258	2,652
Accrued Loan Interest Payable (Note 9).	28,016	28,367
Current Portion of Noncurrent Liabilities (Note 9)	24,000	22,500
Unearned Income	<u>7,538</u>	<u>6,820</u>
 TOTAL CURRENT LIABILITIES	 <u>268,671</u>	 <u>290,060</u>
 NONCURRENT LIABILITIES		
U.S. Department of Agriculture (Note 9)	1,793,000	1,815,500
Current Portion of Noncurrent Liabilities	(24,000)	(22,500)
Net Pension Liability (Note 4)	<u>319,298</u>	<u>261,970</u>
 TOTAL NONCURRENT LIABILITIES	 <u>2,088,298</u>	 <u>2,054,970</u>
 DEFERRED INFLOWS (from pension activity)		
Net Difference Between Projected Actual Earnings on Pension Plan Investments	<u>42,543</u>	<u>25,471</u>
 TOTAL DEFERRED INFLOWS	 <u>42,543</u>	 <u>25,471</u>
 TOTAL LIABILITIES	 <u>2,399,512</u>	 <u>2,370,501</u>

NET POSITION

Invested in Capital Assets, net of related debt	1,826,318	2,015,815
Restricted Net Assets	39,600	29,700
Unrestricted Net Assets, as Adjusted (Note 10)	<u>1,063,617</u>	<u>1,062,517</u>
 TOTAL NET POSITION	 <u>2,929,535</u>	 <u>3,108,032</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 5,329,047</u>	 <u>\$ 5,478,533</u>

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

OPERATING REVENUES	<u>2017</u>	<u>2016</u>
User Fees:		
Water - Residential	\$ 943,931	\$ 913,105
Water - Commercial	147,321	143,738
Sewer Surcharge Fees	83,500	85,183
Tap-on Fees	9,462	11,320
Late Payment Penalty Income	37,860	39,648
Reconnect Fees	9,172	10,516
Gain on Sale of Fixed Assets	-	300
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	1,231,246	1,203,810
 OPERATING EXPENSES		
Water Purchased	655,527	638,514
Pumping Electricity	22,469	22,012
Payroll	163,007	161,301
Payroll Taxes	13,644	12,996
Employee Benefits	32,636	28,398
Retirement Benefits (Note 4)	72,322	31,793
Transmission and Distribution Expense	42,364	68,018
Administrative and General Expense	62,954	60,064
Interest Paid on Loans	56,031	56,734
Other Interest Expense	195	139
Water Testing	5,026	4,280
Maintenance & Repairs	43,441	5,357
Insurance & Workers' Comp	21,124	21,924
Taxes & Licenses	36,521	35,663
Bad Debts (Note 1)	2,206	2,979
Depreciation (Note 3)	228,085	228,567
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	1,457,552	1,378,739
 Operating Income	 <u>(226,306)</u>	 <u>(174,929)</u>

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

NONOPERATING REVENUES (EXPENSES)	<u>2017</u>	<u>2016</u>
Sewer Fees Collected	552,537	523,346
Sewer Fees Paid	(508,193)	(482,707)
Interest Income	2,269	1,851
Other Income	<u>1,196</u>	<u>468</u>
 TOTAL NONOPERATING REVENUES (EXPENSES)	 <u>47,809</u>	 <u>42,958</u>
 Change in Net Position	 (178,497)	 (131,971)
 Net Position - Beginning of Year	 <u>3,108,032</u>	 <u>3,240,003</u>
 Net Position - End of Year	 <u>\$ 2,929,535</u>	 <u>\$ 3,108,032</u>

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

	<u>2017</u>	<u>2016</u>
Cash Flow from Operating Activities		
Cash received from users and customers	\$ 1,220,442	\$ 1,198,339
Cash payments to employees for services & benefits	(237,391)	(224,347)
Cash payments to suppliers of goods and services	(964,741)	(838,113)
Net Cash Provided (Used) by Operating Activities	<u>18,310</u>	<u>135,879</u>
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(22,500)	(21,000)
Purchase of equipment	(38,588)	(10,488)
Interest paid on Loans	(56,538)	(57,070)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(117,626)</u>	<u>(88,558)</u>
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	552,537	523,346
Other non-operating income	56,731	24,015
Cash paid out from other non-operating expenses	(508,193)	(482,707)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>101,075</u>	<u>64,654</u>
Cash Flows from Investing Activities		
Receipt of Interest	2,268	1,882
Redemption of a Certificates of Deposit	-	38,654
Net Cash Provided (Used) by Investing Activities	<u>2,268</u>	<u>40,536</u>
Net Change in Cash and Cash Equivalents	4,027	152,511
Cash and Cash Equivalents, Beginning of Year	<u>497,999</u>	<u>345,488</u>
Cash and Cash Equivalents, End of Year	<u>\$ 502,026</u>	<u>\$ 497,999</u>
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	\$ 75	\$ 75
Cash Operations Account	429,470	430,434
Deposit Account	32,881	37,790
Debt Reserve Account	39,600	29,700
	<u>\$ 502,026</u>	<u>\$ 497,999</u>

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	<u>2017</u>	<u>2016</u>
Operating Income	\$ (226,306)	\$ (174,929)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	228,085	228,567
Bad Debts	2,206	2,979
Pension Expense	44,219	-
Change in assets and liabilities		
Certificates of deposit	(1,380)	37,137
Accounts receivable	(1,506)	10,058
Inventory	(4,607)	(1,365)
Accrued interest receivable	(377)	30
Prepaid expenses	(565)	(2,007)
Accounts payable	(16,754)	35,128
Accrued payroll taxes payable	376	785
Customer deposits	(5,160)	2,650
Customer deposits - accrued interest	(2,379)	(119)
Accrued sales tax	(55)	1
Accrued school tax	110	(46)
Accrued pension expense	536	536
Unearned income	718	(4,690)
Accrued loan interest payable	(351)	(336)
USDA Loan Payable	1,500	1,500
Net Cash Provided by Operating Activities	<u>\$ 18,309</u>	<u>\$ 135,879</u>

See Independent Auditor's Report

The Accompanying Notes are an Integral Part of These Financial Statements

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statutes 74.012. Fiscal Court appoints the District's three commissioners to serve up to four year terms. The District serves primarily residents of western Franklin County, however, they also have customers in Anderson and Shelby counties. The District is governed by the Public Service Commission. The District is not considered a component unit of Franklin County.

The District operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. FUNDING AND CONCENTRATIONS

The District's primary source of funding is through the sale of water to residential and commercial customers and the collection of sewer fees for various sewer treatment plants. The Public Service Commission sets the rates charged for the water sold and adjusts accordingly as purchase costs change. The District purchases all their water from the Frankfort Water & Electric Plant Board. The District entered into a 42 year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. BASIS OF ACCOUNTING

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. All of the District's activity is accounted for as business-type activities. Operating revenues relate to the District's primary function of the collection of water sales, likewise, operating expenses include the expenses for the distribution of water to customers. Non-operating revenues and expenses relate to all other revenue and expenses.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34) established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Invested in capital assets, net of related debt –This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of “Invested in capital assets, net of related debt.” Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

D. TAX STATUS

The District is an instrumentality of local government and is, therefore, exempt under I.R.C. 115 from income tax. The District is also exempt from federal unemployment taxes.

E. ACCOUNTS RECEIVABLE

The accounts receivable are stated at the amount owed by customers to the District. The District does not provide an allowance for uncollectible accounts but rather expenses such items in the period they become uncollectible. This practice differs from generally accepted account principles but its impact is deemed immaterial. The amount written-off for the years ended December 31, 2017 and 2016 totaled \$2,206 and \$2,979, respectively. Management believes the remaining balance to be collectable.

F. SIGNIFICANT ESTIMATES

These financial statements were prepared with the use of management’s estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities if any at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

See Independent Auditor’s Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PAYMENT POLICIES

The District bills their customers at the end of each month. The customers have until the 10th of the next month to pay their bill in full without the imposition of a penalty. After the 10th, the customers have until the 20th of the month to pay in full. If unpaid by the 20th, the District may turn off the customers' water.

H. INVENTORY

Inventory consists of parts and materials used to repair meters, water lines or hydrants. Also, the District's inventory includes the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. COMPENSATING BALANCES

Whitaker Bank requires the District to maintain a minimum of \$1,000 in all three accounts at all times.

J. FEDERAL LOANS

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines, pumping station, installation of automated meter reading and a new water storage tank. In April 2013, the District drew down the loan from the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from U.S. Department of Agriculture totaled \$1,858,000. The District paid \$22,500 and \$21,500 in principle during calendar years ended December 31, 2017 & 2016, respectively and the loan balance was \$1,793,000 and \$1,815,000 at December 31, 2017 & 2016, respectively.

K. RETIREMENT

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Commission's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2017 and 2016. See Note 4 for full disclosure of activity.

L. CASH AND CASH EQUIVALENTS

For business type activities all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. PREPAID EXPENSES

Prepaid expenses include expenditures for the insurance and software maintenance made in connection with future program and activities.

O. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. Currently, the District has only one item that qualifies for reporting in this category, contributions subsequent to measurement date relating to the retirement information.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. The 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 then. Currently, the District has only one item that qualifies for reporting in this category, net difference between projected actual earnings on pension plan investment relating to the retirement information.

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks. Throughout the year, the District was exposed to a credit risk when their cash and cash equivalents exceeded the FDIC insured amount of \$250,000 at one FDIC insured institution.

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be with FDIC insured banking institutions and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District's bank deposits was \$502,026 and \$497,999 for the years ended December 31, 2017 and 2016, respectively. The carrying amount of the District's certificates of deposit was \$923,732 and

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 2 – CASH DEPOSITS AND CERTIFICATES OF DEPOSIT (continued)

\$922,352 for the years ended December 31, 2017 and 2016, respectively. The bank balances and certificates of deposit are covered by \$250,000 of FDIC insurance. At various times throughout the year and at year-end, this \$250,000 limit was exceeded. The excess amounts were at risk as uninsured. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

Bank Balances and Certificates of Deposit at December 31, 2017, categorized by level of risk are:

	Risk Category			Bank	Uninsured	Book
	1	2	3	Balances	Uncollater- alized	Value
Unrestricted						
Bank Balances	\$ 250,000	\$ -	\$ -	\$ 250,000	\$ 212,351	\$ 462,351
Restrict Bank Balance	-	-	-	-	39,600	39,600
Certificates of Deposit	<u>726,694</u>	<u>-</u>	<u>-</u>	<u>726,694</u>	<u>197,038</u>	<u>923,732</u>
Total	<u>\$ 976,694</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 976,694</u>	<u>\$ 448,989</u>	<u>\$1,425,683</u>

Bank Balances and Certificates of Deposit at December 31, 2016, categorized by level of risk are:

	Risk Category			Bank	Uninsured	Book
	1	2	3	Balances	Uncollater- alized	Value
Unrestricted						
Bank Balances	\$ 250,000	\$ -	\$ -	\$ 250,000	\$ 218,299	\$ 468,299
Restrict Bank Balance	-	-	-	-	29,700	29,700
Certificates of Deposit	<u>725,826</u>	<u>-</u>	<u>-</u>	<u>725,826</u>	<u>196,526</u>	<u>922,352</u>
Total	<u>\$ 975,826</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 975,826</u>	<u>\$ 444,525</u>	<u>\$1,420,351</u>

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District's threshold for capitalization is \$2,500. The District uses other depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission.

The following represents the activity for the year ended December 31, 2017:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	\$ 55,431	\$ 150,609	\$ 37,713	\$ 6,010,029	\$6,253,782
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	<u>- 0-</u>	<u>-0-</u>	<u>-0-</u>	<u>38,588</u>	<u>38,588</u>
Ending	<u>\$ 55,431</u>	<u>\$ 150,609</u>	<u>\$ 37,713</u>	<u>\$ 6,048,617</u>	<u>\$ 6,292,370</u>

The following represents the activity for the year ended December 31, 2016:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	\$ 55,431	\$ 150,609	\$ 51,568	\$ 5,999,541	\$6,257,149
Deletions	-0-	-0-	(13,855)	-0-	(13,855)
Additions	<u>- 0-</u>	<u>-0-</u>	<u>-0-</u>	<u>10,488</u>	<u>10,488</u>
Ending	<u>\$ 55,431</u>	<u>\$ 150,609</u>	<u>\$ 37,713</u>	<u>\$ 6,010,029</u>	<u>\$ 6,253,782</u>

A summary of property and equipment and depreciation for the years ended December 31, 2017 and 2016 is as follows:

		<u>Cost</u>	<u>Current Provision</u>	<u>Accumulated Depreciation</u>
FY 2017	Property & Equipment	\$6,292,370	\$ 228,085	\$ 2,608,050
FY 2016	Property & Equipment	\$6,253,782	\$ 228,567	\$ 2,379,966

Land valued at \$4,806 is not being depreciated.

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 4 - EMPLOYEE RETIREMENT

Plan Description:

Employees of the District are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 564-4646.

Benefits Provided:

Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. No COLA was granted for the fiscal years ending June 30, 2017 or 2016.

Employees covered by benefit terms: At the measurement date of June 30, 2017 and 2016:

Estimated Inactive employees or beneficiaries currently receiving benefits	1
Estimated Inactive employees or beneficiaries not currently receiving benefits	1
Active employees	<u>4</u>
Total	6

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Contributions:

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The District's total expenses to the plan were \$72,322 and \$31,793 for the year ended December 31, 2017 and 2016, respectively. The District contributed 19.18% of employees' gross compensation to the plan from July – December and 18.68% from January - June for the year ended December 31, 2017 and 18.68% for July – December and 17.67% from January - June during the year ended December 31, 2016. The employer's actuarially determined contributions (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The District's net pension liability (asset) was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

Actuarial Assumptions:

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

Inflation	2.30% percent for June 30, 2017 and 3.25 percent for June 30, 2016.
Salary increases	Representative values of the assumed annual rates of future salary increases from 3.05% for June 30, 2017 and 4.0% average for June 30, 2016 including inflation.
Investment rate of return	6.25% per annum @ June 30, 2017 and 7.50% per annum @ June 30, 2016 net of pension plan investment expense, including inflation.

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 4- EMPLOYEE RETIREMENT (continued)

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 actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2015. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The actuarial assumptions used in the June 30, 2017 actuarial valuation 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 valuations results on the same assumption, methods and data, as of that date. The roll-forward is based on the results of GRS' replication.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study 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 April 30, 2014. The analysis used for June 30, 2014 was performed for the period covering fiscal years 2005 through 2008 and is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (see chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumptions are intended to be long-term assumptions

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 4- EMPLOYEE RETIREMENT (continued)

and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 6.25% for June 30, 2017 and 7.50% for June 30, 2016 based on a blending of the factors described below:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Expected Target Allocation</u>
Combined Equity	5.40%	44%
Combined Fixed Income	1.50%	19%
Real Return (Diversified Inflation Strategies	3.50%	10%
Real Estate	4.50%	5%
Absolute Return (Diversified Hedge Funds	4.25%	10%
Private Equity	8.50%	10%
Cash	(.25)%	2%
		<u>100.00%</u>

Discount Rate:

The discount rate used to measure the total pension liability was 6.25% for June 30, 2017 and 7.50% for June 30, 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determine contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Sensitivity of the net pension liability (asset) to changes in the discount rate:

The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent for June 30, 2017, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease <u>(5.25%)</u>	Current Discount Rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
District net pension liability - 2017 \$	402,704	\$ 391,298	\$ 249,530

The following presents the net pension liability (asset) of the District calculated using the discount rate of 7.50 percent for June 30, 2016, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
District net pension liability - 2016 \$	296,899	\$ 261,970	\$ 227,041

Pension Expense (Income) Related to Pensions

Net Difference between Projected Actual Earnings on Pension Plan Investments and Contributions Subsequent to Measurement Date

At December 31, 2017, the District reported a liability of \$319,298 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 determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating CERS members, actuarially determined. At June 30, 2017, the District recognized pension expense of \$72,322. At December 31, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 4- EMPLOYEE RETIREMENT (continued)

Amounts per audited KRS financial report	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference Between Expected and Actual Experience	\$ 396	\$ (8,105)
Changes in Assumptions	58,919	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	25,288	(21,340)
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	<u>4,246</u>	<u>(13,098)</u>
Measurement Date of June 30	<u>\$ 88,849</u>	<u>\$ 42,543</u>

Amounts reported as Net Difference between Projected Actual Earnings on Pension Plan Investments and Contribution Subsequent to the Measurement Date of June will be recognized in pension expense as follows:

Year Ended June 30:

2018	\$ 16,098
2019	22,750
2020	11,560
2021	<u>(4,102)</u>
Total	<u>\$ 46,306</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

All full time employees are required by law to contribute 5% of their gross compensation to the plan in accordance with plan provisions. In 2017, the District contributed 18.68% from January – June and 19.18% thereafter. In 2016, the District contributed 18.68% from January - June and 17.67% thereafter. These contributions were made on the employees' gross compensation during the applicable year. Employer contributions are at an actuarially determined rate. The District owed the plan \$3,258 and \$2,652 at December 31, 2017 and 2016, respectively.

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended June 30, 2017, determined as of June 30, 2015. The following actuarial methods and assumptions were used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	28 Years for June 30, 2017 and 2016
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized for the year ended June 30, 2017 and a 5-Year Smoothed Market for the year ended June 30, 2016
Inflation	3.25 Percent for June 30, 2017 & June 30, 2016
Salary Increase	4.0 Percent Average for June 30, 2017 and June 30, 2016,
Payroll Growth Rate	4.0%
Investment Rate of Return	7.50 Percent for June 30, 2017 and for June 30, 2016, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	June 30, 2015

CERS issues a publicly available financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at 502-564-4646.

The plan provides for retirement, disability and death benefits. In addition, a portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standard Board Statement Number 12. KRS provided statutory authority requiring public employers to fund post-retirement health care through their contribution to CERS. The OPEB is the responsibility of the CERS not the District.

NOTE 5 – OTHER EMPLOYEE BENEFITS

In addition to the pension benefits described in Note 4, the District participates in the Kentucky Retirement Systems Insurance fund (Fund). The Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701 to provide hospital and medical insurance for member receiving benefits from the Kentucky Employees Retirement System (KRS). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase medical insurance.

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 5 – OTHER EMPLOYEE BENEFITS (continued)

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

<u>Years of Service</u>	<u>Paid by Insurance Fund</u>
20 or more	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

As a result of House Bill 290, medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees who participating began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

In prior years, the employers' 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 of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

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

NOTE 6 - CUSTOMER DEPOSITS

New customers must pay a \$60 deposit to become a customer of the District. The District deposits these funds in an interest bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request.

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 6 - CUSTOMER DEPOSITS (continued)

When the District redeems the deposit they must pay the customers the interest earned while they had the deposit. KRS statutes require the District to pay the actual interest earned on the funds using the current market rate, however, this rate cannot exceed 6%.

The estimated accrued interest on these deposits at December 31, 2017 & 2016 was \$1,052 and \$3,431, respectively.

NOTE 7 - TAPPING FEES AND CONTRIBUTIONS IN AID OF CONSTRUCTION

The Public Service District, the regulatory agency governing the District, requires that Tapping Fees and Contributions in Aid of Construction be added to a Donated Net Asset account instead of being included in revenue. These financial statements do not reflect this presentation since these financial statements are presented in conformity with generally accepted accounting principles. If we had recorded these items in accordance with the regulatory requirement, the net revenue would have decreased in fiscal years 2017 and 2016 by \$9,462 and \$11,320, respectively.

NOTE 8 - SUBSEQUENT EVENTS

The District has adopted FASB ASC 855-10-50-1 "Subsequent Events". The Organization evaluated events occurring between the end of its most recent year end and this report date. Management believes no significant events occurred subsequent to the date of this report which is the date the financial statements were available to be issued.

NOTE 9 – FEDERAL LOAN PAYABLE

The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principle payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2053. As part of the loan covenant, the District is required to open a separate bank account (Reserve Account) and deposit \$750 per month for the original loan and \$75 per month for the subsequent loan until such time the account reaches \$98,500. Management has opened this account and had a balance of \$39,600 at December 31, 2017 and \$29,700 at December 31, 2016.

The District paid \$22,500 of principle on January 1, 2017 and \$21,500 of principle on the loan on January 1, 2016. In addition another \$24,000 in principle is due on January 1, 2018. Total interest expense on this loan was \$56,031 and \$56,734 for December 31, 2017 and 2016, respectively.

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

The District's long-term debt at December 31, 2017 is detailed as follows:

	Principal Balance 12/31/16	Borrowings	Payments	Principal Balance 12/31/17	Current Portion	Long-Term Portion
USDA Loan	\$1,815,500	-0-	\$ 22,500	\$ 1,793,000	\$ 24,000	\$ 1,769,000

The District's long-term debt at December 31, 2016 is detailed as follows:

	Principal Balance 12/31/15	Borrowings	Payments	Principal Balance 12/31/16	Current Portion	Long-Term Portion
USDA Loan	\$1,837,000	-0-	\$ 21,500	\$ 1,815,500	\$ 22,500	\$ 1,793,000

The long-term debt service requirements for the USDA Loan is as follows:

Year	Principal	Interest	Total
2018	24,000	55,281	79,281
2019	24,500	54,516	79,016
2020	25,500	53,719	79,219
2021	26,500	52,891	79,391
2022	27,500	52,031	79,531
2023 - 2026	123,000	198,703	321,703
2027 - 2031	185,000	224,063	409,063
2032 - 2036	226,500	191,375	417,875
2037 - 2041	278,500	151,203	429,703
2042 - 2046	340,500	102,062	442,562
2047 - 2051	418,000	41,750	459,750
2052	93,500	- 0 -	93,500
Total	\$ 1,793,000	\$ 1,177,594	\$2,970,594

See Independent Auditor's Report

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 & 2016

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

See Independent Auditor's Report

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Farmdale Water District (District) as of and for the year ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting and cash, as discussed below, that we consider to be significant deficiencies in internal control over financial reporting.

2012-1 Preparation of Financial Statements

Condition – As noted in the prior audits, the District does not have an internal control system designed to provide for the preparation of the financial statements. As auditors, we were requested to assist in the drafting of the financial statements and accompanying notes to the financial statements.

Criteria – A good system of internal control establishes internal controls which effectively and timely detect potential misstatements to the financial statements.

Effect – Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be significant in relation to the financial statements.

Cause – District personnel do not have adequate training and background to apply U.S. generally accepted accounting principles internally.

Recommendation – Management believes the cost of adding an additional qualified person to the staff to remedy this condition would not be cost beneficial. In situations like this, management's close supervision and review of accounting information on a regular basis is the most cost effective means for preventing and detecting errors and irregularities. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response – As noted in the prior audits, the District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.

2017-1 FDIC Coverage of Deposits and Certificates of Deposit

Condition – The District does not have internal control procedures designed to ensure that all deposit accounts and certificates of deposits are covered by FDIC insurance. At many times throughout the year the balances exceeded the \$250,000 FDIC insurance coverage putting these funds at risk of loss if the bank were to fail.

Criteria – A good system of internal control establishes internal controls which effectively and timely ensure all assets are adequately insured.

Effect – Inadequate controls could result in significant financial loss if the banks were to fail.

Cause – District personnel have not adequately monitored bank balances to ensure all accounts have adequate insurance.

Recommendation – We recommend management review total funds at all banking institutions and move funds as needed to ensure adequate FDIC coverage.

Management Response – Management agrees and will implement the policy immediately.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

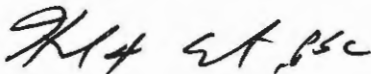
Farmdale Water District's Response to Finding

Farmdale Water District's response to the finding identified in our audit is described above. The 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.

We noted certain matters that we reported to management of the District in a separate letter dated May 29, 2018.

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.



Harrod & Associates, PSC
Frankfort, KY 40601

May 29, 2018

REQUIRED SUPPLEMENTAL INFORMATION

FARMDALE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Net Pension Liability for County Employees Retirement System (in thousands)	\$ 5,853,443	\$ 4,299,525	\$ 3,244,377
Employer's Proportion (Percentage) of Net Pension Liability	0.00546%	0.00532%	0.00600%
Employer's Proportion (Amount) of Net Pension Liability	\$ 319,298	\$ 261,970	\$ 257,923
Employer's Covered-Employer Payroll	\$ 148,407	\$ 120,993	\$ 138,847
Employer's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of Employer's Covered-Employer Payroll	215.60%	216.52%	185.76%
Total Pension Plan's Fiduciary Net Position (in thousands)	\$ 6,687,237	\$ 644,080	\$ 6,528,146
Total Pension Plan's Pension Liability (in thousands)	\$ 12,540,545	\$ 10,740,325	\$ 9,772,523
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	53.32%	59.97%	66.80%

FARMDALE WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO CERS
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 18,528	\$ 15,116	\$ 54,050
Contributions in Relation to the Actuarially Determined Contribution	<u>28,103</u>	<u>26,755</u>	<u>31,828</u>
Contribution Deficiency (Excess)	(9,575)	(11,639)	22,222
Covered-Employee Payroll	\$ 148,407	\$ 120,993	\$ 138,847
Contributions as a Percentage of Covered-Employee Payroll	18.94%	22.11%	22.92%