

**FARMDALE WATER DISTRICT**  
**FRANKFORT, KENTUCKY 40601**

**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017**

**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	19-40
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 <i>GOVERNMENT AUDITING STANDARDS</i>	41-43
REQUIRED SUPPLEMENTAL INFORMATION	
REQUIRED SUPPLEMENTAL INFORMATION	
SCHEDULE OF PROPORTIONATE SHARE ON NET PENSION LIABILITY	44
SCHEDULE OF CONTRIBUTIONS TO CERS	45
SCHEDULE OF NET OPEB LIABILITY	46
SCHEDULE OF CONTRIBUTIONS TO CERS INSURANCE FUND	47

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Farmdale 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 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, 2018 and 2017, 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 District's Proportionate Share of the CERS Net Pension Liability on page 44, the Schedule of Contributions to CERS on page 45, the Schedule of Net OPEB Liability on page 46 and the Schedule of Contributions to CERS Insurance Fund on Page 47 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 June 10, 2019 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

June 10, 2019  
cys: 4



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

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, 2018 and 2017. 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. In April 2018, the District discovered and repaired a significant water leak which was causing a loss of approximately 150,000 gallons per day.

**Financial Highlights**

In 2018, the assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,673,337. Of this amount, \$1,981,468 was invested in Capital Assets, \$82,493 was restricted for debt retirement, and \$609,376 was unrestricted. In 2018, the Board's net assets decreased (\$256,198), primarily through Other Post Employment Benefits (OPEB) and pension adjustments, payroll, employee benefits, depreciation and the cost of purchased water.

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, \$1,891,320 was invested in Capital Assets, \$72,481 was restricted for debt retirement, and \$965,734 was unrestricted. In 2017, the Board's net assets decreased (\$178,497), 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 \$1,232,487 and \$1,231,246 for the calendar years 2018 and 2017, respectively. The Kentucky Public Service Commission (PSC) approved one rate increase each in 2018 and 2017. Both of these requests for increases were in response to increases in the cost of water purchased from the Frankfort Plant Board. The rate increase in 2018 was effective in July, while in 2017, the increase was effective in November.

FARMDALE WATER DISTRICT  
Management Discussion and Analysis (Continued)  
For the Years Ended December 31, 2018 & 2017

**Expenses**

Operating expenses were \$1,541,445 and \$1,457,552 for the calendar years 2018 and 2017, 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 2,655 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.

FARMDALE WATER DISTRICT  
Management Discussion and Analysis (Continued)  
For the Years Ended December 31, 2018 & 2017

**Financial Overview** (continued)

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 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 2018 and 2017 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 40 of this report.

**Statement of Net Position Overview**

The District was not required to have an audit under Uniform Guidance for 2018 or 2017.

Statement of Net Position	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Capital Assets	3,750,468	3,684,320	66,148	1.79%
Current and Other Assets	1,334,812	1,555,878	(221,066)	(14.21%)
Other Assets	<u>122,479</u>	<u>88,849</u>	<u>33,630</u>	37.85%
Total Assets	<u>5,207,759</u>	<u>5,329,047</u>	<u>(121,288)</u>	(2.28%)
Long-term Liabilities	1,744,500	1,769,000	(24,500)	(1.38%)
Other Liabilities	<u>789,922</u>	<u>630,512</u>	<u>159,410</u>	25.28%
Total Liabilities	<u>2,534,422</u>	<u>2,399,512</u>	<u>134,910</u>	5.62%
Net Position:				
Invested in Capital Assets	1,981,468	1,891,320	90,148	4.77%
Restricted	82,493	72,481	10,012	13.81%
Unrestricted	<u>609,376</u>	<u>965,734</u>	<u>(356,358)</u>	(36.90%)
Total Net Position	<u>2,673,337</u>	<u>2,929,535</u>	<u>(256,198)</u>	(8.74%)

FARMDALE WATER DISTRICT  
Management Discussion and Analysis (Continued)  
For the Years Ended December 31, 2018 & 2017

**Financial Overview** (continued)

**Statement of Net Position Overview (continued)**

The District was not required to have an audit under Uniform Guidance 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	1,891,320	2,015,815	(124,495)	(6.18%)
Restricted	72,481	29,700	42,781	144.04%
Unrestricted	<u>965,734</u>	<u>1,062,517</u>	<u>(96,783)</u>	(9.11%)
Total Net Position	<u>2,929,535</u>	<u>3,108,032</u>	<u>(178,497)</u>	(5.74%)

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

Statement of Rev. Exp. and Changes in Net Position	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues	1,232,487	1,231,246	1,241	0.01%
Operating Expenses	<u>1,541,445</u>	<u>1,457,552</u>	<u>83,893</u>	5.76%
Operating Income/(Loss)	<u>(308,958)</u>	<u>(226,306)</u>	<u>(82,652)</u>	(36.52%)
Net Non-Operating Income	<u>52,760</u>	<u>47,809</u>	<u>4,951</u>	10.36%
Change in Net Position	<u>(256,198)</u>	<u>(178,497)</u>	<u>(77,701)</u>	(43.53%)

FARMDALE WATER DISTRICT  
Management Discussion and Analysis (Continued)  
For the Years Ended December 31, 2018 & 2017

**Financial Overview** (continued)

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

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%)

**Assets**

In 2018, the District's total assets decreased \$121,288 from FY 2017. The Audit Report indicates the major increases were in "Fixed Assets" due to the improvement of several lines and meters. The largest decreases were in "Accounts Receivable" due to improved collections and "Cash" used to meet normal operating expenses.

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.

**Liabilities**

In 2018, the District's total liabilities increased \$134,910 from FY 2017. The Audit Report indicates the major changes were in "Net Pension Liability" and "Net OPEB Liability". Net Pension Liability and Net OPEB Liability increased \$57,328 which explains the increase.

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 \$162,639 which explains the increase.

**Net Assets**

The District's assets exceeded its liabilities by \$2,673,337 and \$2,929,535 for fiscal years ended December 31, 2018 and 2017, respectively. This represents a decrease from fiscal year 2017 to 2018 of (\$256,198) and 2016 to 2017 of (\$178,497). 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, 2018 & 2017

**Financial Overview** (continued)

**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, 2018, 2017 and 2016 amounted to \$3,750,468, \$3,684,320, and \$3,873,816 (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 installation of new lines and meters.

**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 principal of \$24,000 principal payment in January 2018 and \$22,500 in January 2017. The loan is a 40 year loan at 3.125% interest payable semi-annually. In addition, prepayment of the loan is not allowed.

**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.



FARMDALE WATER DISTRICT  
Management Discussion and Analysis (Continued)  
For the Years Ended December 31, 2018 & 2017

**The Future**

**Water**

The District, in April 2018, found and repaired a leak which was losing approximately 150,000 gallons per day. The District continues to vigorously search for and repair leaks throughout their system.

**Administrative and General**

The District continues to experience an increase in health care and retirement expenses. Due to the uncertainty surrounding increased costs as a result of healthcare reform the District expects these increases to continue into the future. In addition, accounting pronouncements concerning the CERS pension and OPEB cost continue to rise and affect the bottom line for the District.

The District currently had four full-time employees in 2018 and 2017. The District continues to monitor the needs of their customers to determine if hiring additional personnel is necessary. In response to these needs the District plans to hire additional field staff in 2019.

The District has experienced changes in the employer contribution rate to CERS for employee pension. The District contributed 21.48% of employees' gross compensation to the plan from July – December and 19.18% from January - June for the year ended December 31, 2018 and 19.18% for July – December and 18.68% from January - June during the year ended December 31, 2017. These rates are expected to continue to increase 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%.

**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 28.0% of purchased water throughout the year. However, in April 2018 the District discovered a leak underneath U.S. 127 South which was losing approximately 150,000 gallons per day, this discovery and repair should significantly reduce their water loss. Management continues to employ new methods in attempting to find and repair leaks and the percentage loss has dropped from the prior years. The District's mission is to provide superior, reliable services to the Farmdale community at the most reasonable prices possible.

FARMDALE WATER DISTRICT  
Management Discussion and Analysis (Continued)  
For the Years Ended December 31, 2018 & 2017

**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, 2018 & 2017

**ASSETS**

CURRENT ASSETS	<u><b>2018</b></u>	<u><b>2017</b></u>
Cash and Cash Equivalents	\$ 215,422	\$ 429,545
Cash - Restricted Customer Deposits	32,993	32,881
Certificates of Deposit	926,688	923,732
Accounts Receivable	69,688	96,036
Inventory	23,326	18,621
Accrued Interest Receivable	2,864	988
Prepaid Expenses	<u>14,331</u>	<u>14,475</u>
 TOTAL CURRENT ASSETS	 <u>1,285,312</u>	 <u>1,516,278</u>
 CAPITAL ASSETS		
Land & Buildings	55,431	55,431
Equipment	150,609	150,609
Vehicles	37,713	37,713
Water Lines, Hydrants, Towers, & Meters	6,342,403	6,048,617
Accumulated Depreciation	<u>(2,835,688)</u>	<u>(2,608,050)</u>
 TOTAL CAPITAL ASSETS	 <u>3,750,468</u>	 <u>3,684,320</u>
 NONCURRENT ASSETS		
Cash - Debt Reserve	<u>49,500</u>	<u>39,600</u>
 TOTAL NONCURRENT ASSETS	 49,500	 39,600
 DEFERRED OUTFLOWS (from pension & OPEB activity)		
Deferred Outflows - OPEB	30,768	-
Deferred Outflows - Pension	<u>91,711</u>	<u>88,849</u>
 TOTAL DEFERRED OUTFLOWS	 <u>122,479</u>	 <u>88,849</u>
 TOTAL ASSETS	 <u><u>\$ 5,207,759</u></u>	 <u><u>\$ 5,329,047</u></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, 2018 & 2017

**LIABILITIES**

CURRENT LIABILITIES	<u>2018</u>	<u>2017</u>
Accounts Payable	\$ 145,652	\$ 160,984
Customer Deposits	37,421	34,805
Customer Deposits - Accrued Interest	954	1,052
Accrued Sales Tax	750	545
Accrued School Tax	2,643	2,472
Accrued Payroll Tax	4,543	6,001
Accrued Pension Expense	1,996	3,258
Accrued Loan Interest Payable	27,641	28,016
Current Portion of Noncurrent Liabilities	24,500	24,000
Unearned Income	10,878	7,538
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	256,978	268,671
	<hr/>	<hr/>
NONCURRENT LIABILITIES		
U.S. Department of Agriculture	1,769,000	1,793,000
Current Portion of Noncurrent Liabilities	(24,500)	(24,000)
Net OPEB Liability	108,784	-
Net Pension Liability	373,153	319,298
	<hr/>	<hr/>
TOTAL NONCURRENT LIABILITIES	2,226,437	2,088,298
	<hr/>	<hr/>
DEFERRED INFLOWS (from pension & OPEB activity)		
Deferred Inflows - OPEB	20,627	-
Deferred Inflows - Pension	30,380	42,543
	<hr/>	<hr/>
TOTAL DEFERRED INFLOWS	51,007	42,543
	<hr/>	<hr/>
TOTAL LIABILITIES	2,534,422	2,399,512
	<hr/>	<hr/>
NET POSITION		
Invested in Capital Assets, net of related debt	1,981,468	1,891,320
Net Assets Restricted	82,493	72,481
Net Assets Unrestriction	609,376	965,734
	<hr/>	<hr/>
TOTAL NET POSITION	2,673,337	2,929,535
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET POSITION	\$ 5,207,759	\$ 5,329,047
	<hr/>	<hr/>

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, 2018 & 2017

OPERATING REVENUES	<u>2018</u>	<u>2017</u>
User Fees:		
Water - Residential	\$ 942,664	\$ 943,931
Water - Commercial	162,336	147,321
Sewer Surcharge Fees	69,184	83,500
Tap-on Fees	12,452	9,462
Late Payment Penalty Income	38,550	37,860
Reconnect Fees	7,301	9,172
Gain on Sale of Fixed Assets	-	-
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	1,232,487	1,231,246
 OPERATING EXPENSES		
Water Purchased	601,186	655,527
Pumping Electricity	20,353	22,469
Payroll	180,122	163,007
Payroll Taxes	14,355	13,644
Employee Benefits	142,987	32,636
Retirement Benefits	65,731	72,322
Transmission and Distribution Expense	22,536	42,364
Administrative and General Expense	67,847	62,954
Interest Paid on Loans	55,281	56,031
Other Interest Expense	435	195
Water Testing	5,933	5,026
Maintenance & Repairs	74,232	43,441
Insurance & Workers' Comp	20,927	21,124
Taxes & Licenses	38,381	36,521
Bad Debts	3,501	2,206
Depreciation	227,638	228,085
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	1,541,445	1,457,552
 Operating Loss	<hr/> (308,958)	<hr/> (226,306)

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, 2018 & 2017

NON OPERATING REVENUES (EXPENSES)	<u>2018</u>	<u>2017</u>
Sewer Fees Collected	586,271	552,537
Sewer Fees Paid	(540,257)	(508,193)
Interest Income	5,371	2,269
Other Income	<u>1,375</u>	<u>1,196</u>
TOTAL NON OPERATING REVENUES (EXPENSES)	<u>52,760</u>	<u>47,809</u>
Change in Net Position	(256,198)	(178,497)
Net Position - Beginning of Year	<u>2,929,535</u>	<u>3,108,032</u>
Net Position - End of Year	<u>\$ 2,673,337</u>	<u>\$ 2,929,535</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, 2018 & 2017

	<u><b>2018</b></u>	<u><b>2017</b></u>
Cash Flow from Operating Activities		
Cash received from users and customers	\$ 1,228,602	\$ 1,220,442
Cash payments to employees for services & benefits	(264,086)	(237,391)
Cash payments to suppliers of goods and services	(846,841)	(964,741)
Net Cash Provided (Used) by Operating Activities	<u>117,675</u>	<u>18,310</u>
Cash Flow from Capital & Related Financing Activities		
USDA Loan Principal Payments	(24,000)	(22,500)
Purchase of equipment	(293,787)	(38,588)
Interest paid on Loans	(56,023)	(56,538)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(373,810)</u>	<u>(117,626)</u>
Cash Flow from Noncapital Financing Activities		
Cash received from other non-operating revenues	587,646	552,537
Other non-operating expenses	(737)	56,731
Cash paid out from other non-operating expenses	(540,257)	(508,193)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>46,652</u>	<u>101,075</u>
Cash Flows from Investing Activities		
Receipt of Interest	5,371	2,268
Redemption of a Certificates of Deposit	(122,341)	-
Purchases of Certificates of Deposit	122,341	-
Net Cash Provided (Used) by Investing Activities	<u>5,371</u>	<u>2,268</u>
Net Change in Cash and Cash Equivalents	(204,112)	4,027
Cash and Cash Equivalents, Beginning of Year	<u>502,026</u>	<u>497,999</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 297,914</u></u>	<u><u>\$ 502,026</u></u>
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	\$ 75	\$ 75
Cash Operations Account	215,346	429,470
Deposit Account	32,993	32,881
Debt Reserve Account	49,500	39,600
	<u><u>\$ 297,914</u></u>	<u><u>\$ 502,026</u></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, 2018 & 2017

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	<u>2018</u>	<u>2017</u>
Operating Loss	\$ (256,198)	\$ (178,497)
Adjustment to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	227,638	228,085
Bad Debts	3,501	-
Pension/OPEB Changes	137,473	44,219
Change in assets and liabilities		
Certificates of deposit	(2,956)	(1,380)
Accounts receivable	26,348	(1,506)
Inventory	(4,706)	(4,607)
Accrued interest receivable	(1,876)	(377)
Prepaid expenses	144	(565)
Accounts payable	(15,332)	(16,754)
Accrued payroll taxes payable	(1,459)	376
Customer deposits	2,616	(5,160)
Customer deposits - accrued interest	(98)	(2,379)
Accrued sales tax	205	(55)
Accrued school tax	172	110
Accrued pension expense	(1,262)	536
Unearned income	3,340	718
Accrued loan interest payable	(375)	(351)
USDA Loan Payable	500	1,500
Net Cash Provided by Operating Activities	<u>\$ 117,675</u>	<u>\$ 63,913</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, 2018 & 2017

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 Statute 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 Statute 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, 2018 & 2017

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, 2018 and 2017 totaled \$3,501 and \$2,206, 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, 2018 & 2017

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 10<sup>th</sup> of the next month to pay their bill in full without the imposition of a penalty. After the 10<sup>th</sup>, the customers have until the 20<sup>th</sup> of the month to pay in full. If unpaid by the 20<sup>th</sup>, 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 \$24,000 and \$22,500 in principal during calendar years ended December 31, 2018 & 2017, respectively and the loan balance was \$1,769,000 and \$1,793,000 at December 31, 2018 & 2017, 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 District'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, 2018 and 2017. 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 are considered to be cash equivalents.

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

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.

N. 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 \$297,915 and \$502,026 for the years ended December 31, 2018 and 2017, respectively. The carrying amount of the District's certificates of deposit was \$926,688 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)

\$923,732 for the years ended December 31, 2018 and 2017, 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, 2018, categorized by level of risk are:

	Risk Category			Bank	Uninsured	Book
	1	2	3	Balances	Uncollateralized	Value
Unrestricted						
Bank Balances	\$ 215,421	\$ -	\$ -	\$ 215,421	\$ -	\$ 215,421
Restrict Bank Balance	34,579	-	-	34,579	47,914	82,493
Certificates of Deposit	<u>926,688</u>	<u>-</u>	<u>-</u>	<u>926,688</u>	<u>-</u>	<u>926,688</u>
Total	<u>\$1,176,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,176,688</u>	<u>\$ 47,914</u>	<u>\$1,224,602</u>

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	Uncollateralized	Value
Unrestricted						
Bank Balances	\$ 250,000	\$ -	\$ -	\$ 250,000	\$ 179,470	\$ 429,470
Restrict Bank Balance	-	-	-	-	72,481	72,481
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>

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

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, 2018:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/Towers & Meters	Totals
Beginning	\$ 55,431	\$ 150,609	\$ 37,713	\$ 6,048,617	\$6,292,370
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	<u>- 0-</u>	<u>-0-</u>	<u>-0-</u>	<u>293,787</u>	<u>293,787</u>
Ending	<u>\$ 55,431</u>	<u>\$ 150,609</u>	<u>\$ 37,713</u>	<u>\$ 6,342,404</u>	<u>\$ 6,586,157</u>

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>

A summary of property and equipment and depreciation for the years ended December 31, 2018 and 2017 is as follows:

		<u>Cost</u>	<u>Current Provision</u>	<u>Accumulated Depreciation</u>
FY 2018	Property & Equipment	\$6,586,157	\$ 227,638	\$ 2,835,688
FY 2017	Property & Equipment	\$6,292,370	\$ 228,085	\$ 2,608,050

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, 2018 & 2017

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 Statue 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 Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. Tier 1 Non-Hazardous 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, which must contain at least 48 months. 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. Tier 2 Non-Hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age plus earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 Non-Hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

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. Senate Bill 2 of 2013 eliminated all future COLA's unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA was granted for the fiscal years ending June 30, 2018 or 2017.

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Employees covered by benefit terms: At the measurement date of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Estimated Inactive employees/beneficiaries currently receiving benefits	1	1
Estimated Inactive employees/beneficiaries not currently receiving benefits	1	1
Active employees	<u>4</u>	<u>4</u>
Total	6	6

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 \$65,731 and \$72,322 for the year ended December 31, 2018 and 2017, respectively. The District contributed 21.48% of employees' gross compensation to the plan from July – December and 19.18% from January - June for the year ended December 31, 2018. 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. 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, 2018 and 2017, 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, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30% for June 30, 2018 and for June 30, 2017
-----------	---

See Independent Auditor's Report



FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Salary increases	Representative values of the assumed annual rates of future salary increases from 3.05% for June 30, 2018 and 2017 including inflation
Investment rate of return	6.25% per annum @ June 30, 2018 and 2017 net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined 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, 2018 and 2017 actuarial valuation was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 and 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, 2018 & 2017

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, 2018 and 6.25% for June 30, 2017 based on a blending of the factors described below:

**June 30, 2018**

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Expected Target Allocation</u>
U.S. Equity:	14.50%	17.50%
International Equity	13.75%	17.50%
Global Bonds	3.00%	10.00%
Credit Fixed	15.25%	17.00%
Private Equity	6.50%	10.00%
Real Estate	7.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	5.00%	10.00%
Cash	1.50%	3.00%
		<u>100.00%</u>

**June 30, 2017**

<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>

See Independent Auditor's Report



FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 4 - EMPLOYEE RETIREMENT (continued)

Discount Rate:

The discount rate used to measure the total pension liability was 6.25% for June 30, 2018 and 2017. 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 determined 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.

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, 2018, 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:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
District net pension liability - 2018 \$	469,761	\$ 373,153	\$ 292,212

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:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
District net pension liability - 2017 \$	402,704	\$ 319,298	\$ 249,530

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 4 - EMPLOYEE RETIREMENT (continued)

**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, 2018, the District reported a liability of \$373,153 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 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, 2018, the District recognized pension expense of \$65,731. At December 31, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Amounts per audited KRS financial report		
Difference Between Expected and Actual Experience	\$ 12,171	\$ 5,462
Changes in Assumptions	36,468	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	17,352	21,826
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	<u>25,720</u>	<u>3,092</u>
Measurement Date of June 30	<u>\$ 91,711</u>	<u>\$30,380</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:

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 4- EMPLOYEE RETIREMENT (continued)

Year Ended June 30:

2019	\$ 38,088
2020	25,245
2021	1
2022	<u>(2,003)</u>
Total	<u>\$ 61,331</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 2018, the District contributed 19.18% from January – June and 21.48% thereafter. In 2017, the District contributed 18.68% from January – June and 19.18% 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 \$1,996 and \$3,258 at December 31, 2018 and 2017, respectively.

**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, 2018, determined as of June 30, 2016. 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	27 Years for June 30, 2018, closed and 28 Years for June 30, 2017
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, 2018 and 2017
Inflation	3.25 Percent for June 30, 2018 & June 30, 2017
Salary Increase	4.0 Percent Average for June 30, 2018 and June 30, 2017
Payroll Growth Rate	4.0%
Investment Rate of Return	7.50 Percent for June 30, 2018 and for June 30, 2017, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	June 30, 2016

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 4 - EMPLOYEE RETIREMENT (continued)

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 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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 members 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.

*Benefits provided.* The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 5 -- POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

*Contributions.* Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The District's contractually required contribution rate for the period of January 2018 through June 2018 was 4.70% of covered payroll and the contribution rate for the period July 2018 through December 2018 was 5.26%. Contributions to the Insurance Fund from the District were \$7,802 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is 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).

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

At December 31, 2018, the District reported a liability of \$108,784 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for the plan fiscal year 2018 (July 1, 2017 through June 30, 2018). This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2018, the District's proportion was 0.006127%.

For the year ended December 31, 2018, the District recognized OPEB expense of \$98,643, included as part of employment benefits of \$142,987. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

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

NOTE 5 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (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	\$ -0-	\$ 12,677
Changes in Assumptions	21,726	251
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-0-	7,493
Changes in Proportion & Differences Between Employer Contrib. & Proportionate Share of Plan Contributions	<u>9,042</u>	<u>206</u>
Measurement Date of June 30	<u>\$ 30,768</u>	<u>\$ 20,627</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$6,842 resulting from the District's contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ended June 30:

2019	\$ 2,045
2020	2,045
2021	2,045
2022	3,500
2023	(33)
Thereafter	<u>(204)</u>
Total	<u>\$ 9,398</u>

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 5 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

**OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (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, 2018. The following actuarial methods and assumptions were used to determine contribution rates:

Inflation	2.30 Percent
Salary Increase	3.05 Percent
Investment Rate of Return	6.25 Percent
Healthcare cost trend rates Pre-65	Initial trend starting at 7.00% as of January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Healthcare cost trend rates Post-65	Initial trend starting at 5.00% as of January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

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

See Independent Auditor's Report



FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 5 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Expected Target Allocation</u>
U.S. Equity:		
US Large Cap	4.50%	5.00%
US Mid Cap	4.50%	6.00%
US Small Cap	5.50%	6.50%
International Equity		
International Developed	6.50%	12.50%
Emerging Markets	7.25%	5.00%
Global Bonds	3.00%	4.00%
Credit Fixed	23.75%	24.00%
Private Equity	6.50%	10.00%
Real Estate	9.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	7.00%	10.00%
Cash	1.50%	2.00%
		<u>100.00%</u>

*Discount rate.* The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

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

*Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the discount rate.* The following presents the District's proportionate share of the collective net OPEB liability as well as what the RWGS's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.85%) or 1 percentage point higher (6.85%) than the current discount rate:

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 5 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

	<u>1% Decrease</u> <u>(4.85%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(5.85%)</u>	<u>1% Increase</u> <u>(6.85%)</u>
District's Net OPEB liability	\$ 141,761	\$ 108,784	\$ 81,092

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

	<u>1% Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1% Increase</u>
District's Net OPEB Liability	\$ 81,092	\$ 108,784	\$ 141,544

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</u> <u>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.

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 5 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

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.

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, 2018 & 2017 was \$954 and \$1,052, 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 2018 and 2017 by \$12,452 and \$9,462, respectively.

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

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 principal 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 \$49,500 at December 31, 2018 and \$39,600 at December 31, 2017.

The District paid \$24,000 of principal on January 1, 2018 and \$22,500 of principal on the loan on January 1, 2017. In addition another \$24,500 in principal is due on January 1, 2019. Total interest expense on this loan was \$55,281 and \$56,031 for December 31, 2018 and 2017, respectively.

The District's long-term debt at December 31, 2018 is detailed as follows:

	Principal Balance 12/31/17	Borrowings	Payments	Principal Balance 12/31/18	Current Portion	Long-Term Portion
USDA Loan	\$1,793,000	-0-	\$ 24,000	\$ 1,769,000	\$ 24,500	\$ 1,744,500

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

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
FRANKFORT, KENTUCKY 40601

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 & 2017

NOTE 9 – FEDERAL LOAN PAYABLE (continued)

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

Year	Principal	Interest	Total
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	29,000	51,125	80,125
2024 - 2026	94,000	147,578	241,578
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	<u>93,500</u>	<u>- 0 -</u>	<u>93,500</u>
Total	\$ 1,769,000	\$ 1,122,313	\$2,891,313

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 10, 2019.

**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 June 10, 2019.

### **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

June 10, 2019

## **REQUIRED SUPPLEMENTAL INFORMATION**

FARMDALE WATER DISTRICT  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017  
(in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Net Pension Liability for County Employees Retirement System (in thousands)	\$ 6,090,305	\$ 5,853,443	\$ 4,299,525	\$ 3,244,377
Employer's Proportion (Percentage) of Net Pension Liability	0.00613%	0.00546%	0.00532%	0.00600%
Employer's Proportion (Amount) of Net Pension Liability	\$ 373,153	\$ 319,298	\$ 261,970	\$ 257,923
Employer's Covered-Employer Payroll	\$ 125,739	\$ 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	296.77%	215.60%	216.52%	185.76%
Total Pension Plan's Fiduciary Net Position (in thousands)	\$ 7,018,963	\$ 6,687,237	\$ 6,440,800	\$ 6,528,146
Total Pension Plan's Pension Liability (in thousands)	\$ 13,109,268	\$ 12,540,545	\$ 10,740,325	\$ 9,772,523
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	53.54%	53.32%	59.97%	66.80%

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
SCHEDULE OF CONTRIBUTIONS TO CERS  
FOR THE YEARS ENDED DECEMBER 31, 2018 & 2017

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 21,989	\$ 18,528	\$ 15,116	\$ 54,050
Contributions in Relation to the Actuarially Determined Contribution	24,042	28,103	26,755	31,828
Contribution Deficiency (Excess)	(2,053)	(9,575)	(11,639)	22,222
Covered-Employee Payroll	\$ 125,739	\$ 148,407	\$ 120,993	\$ 138,847
Contributions as a Percentage of Covered-Employee Payroll	19.12%	18.94%	22.11%	22.92%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	27 Years for June 30, 2018, closed and 28 Years for June 30, 2017
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, 2018 and 2017
Inflation	3.25 Percent for June 30, 2018 & June 30, 2017
Salary Increase	4.0 Percent Average for June 30, 2018 and June 30, 2017,
Payroll Growth Rate	4.00%
Investment Rate of Return	7.50 Percent for June 30, 2018 and for June 30, 2017, net of Pension Plan Investment Expense, Including Inflation
Retirement Age	65 years or 27 years of service regardless of age
Valuation Date	06/30/2016

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
SCHEDULE OF NET OPEB LIABILITY AND RELATED RATIOS BASED ON  
PARTICIPATION IN CERS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(in thousands)

	<u>2018</u>
Total Net OPEB Liability for County Employees Retirement System (in thousands)	\$ 1,775,480
Employer's Proportion (Percentage) of Net OPEB Liability	0.00613%
Employer's Proportion (Amount) of Net OPEB Liability	\$ 108,784
Employer's Covered-Employer Payroll	\$ 125,739
Employer's Proportionate Share (Amount) of the Net OPEB Liability as a Percentage of Employer's Covered-Employer Payroll	86.52%
Total OPEB Plan's Fiduciary Net Position (in thousands)	\$ 2,414,126
Total OPEB Plan's OPEB Liability (in thousands)	\$ 4,189,606
Total OPEB Plan's Fiduciary Net Position as a Percentage of Total OPEB Liability	57.62%

See Independent Auditor's Report

FARMDALE WATER DISTRICT  
SCHEDULE OF CONTRIBUTIONS TO CERS INSURANCE FUND  
FOR THE YEARS ENDED DECEMBER 31, 2018

Actuarially Determined Contribution	2018 \$ 7,137
Contributions in Relation to the Actuarially Determined Contribution	<u>7,802</u>
Contribution Deficiency (Excess)	(665)
Covered-Employee Payroll	\$ 125,739
Contributions as a Percentage of Covered-Employee Payroll	6.20%

Note: This schedule is intended to display information for ten years. Additional years will be displayed as they become available. See independent auditor's report.

**Notes to Schedules Related to the County Employees' Insurance Fund of KRS Information**

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2018:

*Methods and assumptions used to determine contribution rates:*

Actuarial Valuation Date	06/30/2016
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Payroll Growth Rate	4.00 percent
Asset valuation	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25 percent
Investment Rate of Return	7.50 percent
Retirement age	65 years or 27 years of service regardless of age
Healthcare Trend Rates Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Trend Rates Post – 65	Post - 65 Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

See Independent Auditor's Report