

Western Lewis Rectorville Water & Gas District

Maysville, Kentucky

Regular Audit

January 1, 2017 through December 31, 2017

Fiscal Years Audited Under GAGAS: 2017



## **CAUDILL & ASSOCIATES, CPA, PLLC**

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Member American Institute of Certified Public Accountants  
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Member American Institute of Certified Public Accountants – Government Audit Quality Center

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Western Lewis-Rectorville Water & Gas District  
Maysville, KY 41056

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 statement 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the business-type activities of the Western Lewis-Rectorville Water & Gas District of Maysville, Kentucky, as of December 31, 2017 and 2016 and the changes in financial position and cash flows, thereon for the years ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplemental Information*

Management has omitted the Management's Discussion and Analysis and pension supplemental reporting that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Lewis-Rectorville Water & Gas District of Maysville, Kentucky basic financial statements. The Statement of Revenues and Expenses and Supplemental Information required by Rural Development are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2018 on our consideration of Western Lewis-Rectorville Water & Gas District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Caudill & Associates, CPA, PLLC

*Caudill & Associates, CPA*

July 20, 2018

Western Lewis-Rectorville Water and Gas District  
Statement of Net Position  
December 31, 2017 and 2016

<u>ASSETS:</u>	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and Cash Equivalents - unrestricted	\$ 101,255	\$ 163,618
Accounts receivable (Less Allowance for Doubtful Accounts of \$6,300)	100,133	114,634
Grants Receivable	-	185,836
Inventory	47,158	41,729
Unbilled Receivables	53,653	51,048
Prepaid Expense	<u>10,609</u>	<u>10,887</u>
 <u>Total Current Assets</u>	 <u>312,808</u>	 <u>567,752</u>
Noncurrent Assets:		
Cash and Cash Equivalents - restricted	281,247	361,130
Amortized Expense, Net	5,676	-
Nondepreciated Capital Assets:		
Land	52,914	52,914
Construction in Progress	-	1,583,794
Depreciated Capital Assets:		
Utility Plant and Equipment	13,794,539	11,615,368
Less: accumulated depreciation	<u>(5,276,215)</u>	<u>(4,931,749)</u>
 <u>Total Noncurrent Assets</u>	 <u>8,858,161</u>	 <u>8,681,457</u>
 <u>Deferred Outflows of Resources</u>		
Deferred Gain/Loss on Assets		310,442
Deferred outflows - pension resources	<u>219,947</u>	<u>73,581</u>
 <u>Total Assets and deferred outflows</u>	 <u>\$ 9,390,916</u>	 <u>\$ 9,633,232</u>
 <u>LIABILITIES AND NET POSITION:</u>		
Current Liabilities:		
Accounts payable	\$ 50,181	\$ 87,177
Accrued Taxes and Retirement	9,778	10,635
Accrued Interest Payable	17,029	18,058
Accrued Wages and Sick Leave	11,756	11,151
Customer Deposits and Budget Billing	116,590	105,641
Current portion of long-term debt	<u>105,901</u>	<u>61,000</u>
 <u>Total Current Liabilities</u>	 <u>311,235</u>	 <u>293,662</u>
Long-Term Liabilities:		
Net Pension Liability	466,040	303,311
Loans Payable - KIA	824,565	886,550
Bonds payable, less current portion	<u>2,126,000</u>	<u>2,190,500</u>
 <u>Total Long-Term Liabilities</u>	 <u>3,416,605</u>	 <u>3,380,361</u>
 <u>Total Liabilities</u>	 <u>3,727,840</u>	 <u>3,674,023</u>
 <u>Deferred Inflows of Resources</u>		
Deferred Inflows - pension resources	<u>45,345</u>	<u>11,664</u>
Net Position		
Net Investment in capital assets	5,514,772	5,182,277
Restricted	281,247	361,130
Unrestricted	<u>(178,288)</u>	<u>404,138</u>
 <u>Tota Net Position</u>	 <u>5,617,731</u>	 <u>5,947,545</u>
 <u>Total Liabilites, deferred inflows and Net Position</u>	 <u>\$ 9,390,916</u>	 <u>\$ 9,633,232</u>

The accompanying notes are an integral part of these financial statements

Western Lewis-Rectorville Water and Gas District  
Statement of Revenues, Expenses and  
Changes in Net Position  
For the Years Ended December 31, 2017 and 2016

<u>OPERATING REVENUE:</u>	<u>2017</u>	<u>2016</u>
Water and Gas Sales:		
Residential	\$ 884,984	\$ 954,298
Commerical	109,380	117,947
Service Charges and Other Revenues	<u>59,141</u>	<u>62,883</u>
<u>Total Operating Revenues</u>	<u>1,053,505</u>	<u>1,135,128</u>
<u>OPERATING EXPENSES:</u>		
Salaries & Wages - Employees	255,688	282,244
Salaries & Wages - Officers & Directors	28,500	28,800
Retirement Expense	85,224	37,628
Purchased Water and Gas	213,585	192,434
Purchased Power	51,617	56,777
Chemicals and Salt	14,958	22,248
Materials and Supplies	38,741	33,429
Professional Fees	35,350	33,225
Maintenance Expense	76,952	80,108
Rental Expense	207	1,060
Insurance	95,962	98,415
Regulatory Commission Expense	-	-
Depreciation and Amortization	345,885	321,681
Utilities and Telephone	6,895	5,995
Office and Program Expense	73,748	142,437
Taxes Other Than Income	<u>22,462</u>	<u>25,645</u>
<u>Total Operating Expense</u>	<u>1,345,774</u>	<u>1,362,126</u>
<u>OPERATING INCOME/ (LOSS):</u>	(292,269)	(226,998)
Non-operating income (expenses)		
Interest income	469	602
Gain on Sale of Assets	31,247	-
Tollesboro Sanitation District No.1 Fee	13,372	17,690
Insurance Recoveries	-	25,000
Interest expense	<u>(108,282)</u>	<u>(106,327)</u>
<u>Total Nonoperating Revenues/(Expenses)</u>	<u>(63,194)</u>	<u>(63,035)</u>
<u>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</u>	(355,463)	(290,033)
Capital Grants	-	879,949
Customer Tap Fees	<u>25,649</u>	<u>41,440</u>
Change in net position	(329,814)	631,356
Net position, beginning of year	<u>5,947,545</u>	<u>5,316,189</u>
<u>NET POSITION, END OF YEAR</u>	<u>\$ 5,617,731</u>	<u>\$ 5,947,545</u>

The accompanying notes are an integral part of these financial statements

Western Lewis-Rectorville Water Gas District  
Statement of Cash Flows  
For the Years Ended December 31, 2017 and 2016

	2017	2016
<b>Cash flows from operating activities:</b>		
Receipts from customers	1,076,350	1,125,045
Payments to suppliers	(709,690)	(671,679)
Payments of employees	(283,583)	(308,953)
Net cash provided/ (used) by operating activities	83,077	144,413
<b>Cash flows from capital and related financing activities:</b>		
Debt proceeds - KIA	0	886,550
Principal paid on Debt	(81,584)	(127,000)
Interest paid on Debt	(108,282)	(106,327)
Purchases of Capital Assets	(602,472)	(1,722,027)
Gain/Loss on Disposal of Asset	31,247	-
Deferred Gain/Loss	310,442	-
Insurance recoveries	-	25,000
Contributed Capital-Tap Fees	25,649	41,440
Contributed Capital-Grants	185,836	694,113
Net Receipts from Sanitation District No. 1	13,372	17,690
Net cash provided/ (used) in capital and related financing activities	(225,792)	(290,561)
<b>Cash flows from investing activities:</b>		
Interest Income	469	602
Net cash provided / (used) by investing activities	469	602
<b>Net increase/ (decrease) in cash</b>	(142,246)	(145,546)
Cash, beginning of year	524,748	670,294
<b>Cash, end of year</b>	382,502	524,748
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating Income/ (loss)	(292,269)	(226,998)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and Amortization expense	345,885	321,681
Change in assets and liabilities:		
(Increase) decrease in receivables, net	14,501	(8,875)
(Increase) decrease in inventory	(5,429)	(34)
(Increase) decrease in unbilled receivables	(2,605)	6,992
(Increase) decrease in other prepaid expenses	278	(1,144)
Increase (decrease) in accounts payable	(38,882)	55,974
Increase (decrease) in deferred outflows - pension resources	(146,366)	(41,049)
Increase (decrease) in deferred inflows - pension related	33,681	(15,336)
Increase (decrease) in net pension liability	162,729	59,311
Increase (decrease) in customer deposits and budget billings	10,949	(8,200)
Increase (decrease) in accrued wages and sick leave	605	2,091
Net cash provided (used) by operating activities	83,077	144,413

The accompanying notes are an integral part of these financial statements

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 1 – Summary of Significant Accounting Policies

**Nature of Operations**

The Western Lewis-Rectorville Water & Gas District (the District), was incorporated as a public body in 1961 under Chapter 74 of Kentucky Revised Statutes. The Kentucky Public Service Commission presently regulates the District. A description of the District's significant accounting policies follows:

**Reporting Entity**

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Western Lewis-Rectorville Water & Gas District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District.

Based on the foregoing criteria there are no other organizations included in these financial statements.

**Enterprise Funds**

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The financial statements of the District are prepared using the economic resources measurement focus for the proprietary fund financial statements. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.



WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

**Basic of Accounting**

The accounts of the District are maintained on the accrual basis of accounting. The District's financial statements include the operation of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation management, ability to significantly influence operations, and accountability for fiscal matters.

**Inventory**

Inventory is valued at the lower of cost or market.

**Fixed Assets**

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Depreciation is applied on the straight-line method over estimated useful life of the asset, using rates determined by reference to Utility Standards Rates (NARUC). The District's capitalization policy is to capitalize expenditures costing \$5,000 or more with an estimated useful life of one year or more.

**Unbilled Revenue**

The District records revenue as billed to its customers on a monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

**Power Costs**

The cost of power purchases for pumping water is charged to expenses as used.

**Income Tax Status**

The District is a political subdivision created under Kentucky Revised Statutes 76.020, and as such, is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

**Cash Flows**

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

**Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of the revenues and expenditures during the reporting period. Actual results could differ from estimated amounts.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

**Net Position**

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restriction imposed by creditors, grantors, laws or regulation of other governments. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Note 2 - Cash and Investments

The cash balances at December 31, 2017 were comprised of the following:

Working Funds - Checking	\$37,212
Unrestricted Funds - Savings	<u>63,943</u>
	<u>\$101,155</u>

The District is required to maintain special deposit accounts for customer deposits and long-term debt obligations that restrict use of debt amortization and capital improvements as follows:

Customer Deposits	\$83,968
Bond and Interest Sinking Fund	58,710
Depreciation Fund	131,503
Construction Fund	7,066
	<u>\$281,247</u>

Note 3 - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of December 31, 2017, \$257,066 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$156,710
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WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 4 - Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

Land	\$ 52,914	\$ -	\$ -	\$ 52,914
Construction in Progress	1,583,794	-	(1,583,794)	-
Plant in Service:				-
Water	10,998,916	2,019,707	-	13,018,623
Gas	326,169	120,993	-	447,162
Other Depreciable Assets	290,283	38,471		328,754
Totals at historical costs	13,252,076	2,179,171	(1,583,794)	13,847,453
Less Accumulated Depreciation:				
Plant in Service:				
Water	4,503,784	312,933	-	4,816,717
Gas	288,185	5,161	-	293,346
Other Depreciable Assets	139,780	26,372		166,152
Total Accumulated Depreciation	4,931,749	344,466	-	5,276,215
<b>Business Activities Capital Assets -Net</b>	<b>\$ 8,320,327</b>	<b>\$ 1,834,705</b>	<b>\$ (1,583,794)</b>	<b>\$ 8,571,238</b>

Capital asset activity for the year ended December 31, 2016 was as follows:

Business Activities	Balance 12/31/2015	Additions	Deductions	Balance 12/31/2016
Cost:				
Land	\$ 47,914	\$ 5,000	\$ -	\$ 52,914
Construction in Progress	-	1,583,794	-	1,583,794
Plant in Service:				-
Water	11,126,077	73,124	(200,285)	10,998,916
Gas	489,710	36,744	(200,285)	326,169
Other Depreciable Assets	266,918	23,365	-	290,283
Totals at historical costs	11,930,619	1,722,027	(400,570)	13,252,076
Less Accumulated Depreciation:				
Plant in Service:				
Water	4,257,095	291,753	(45,064)	4,503,784
Gas	325,844	7,405	(45,064)	288,185
Other Depreciable Assets	117,257	22,523	-	139,780
Total Accumulated Depreciation	4,700,196	321,681	(90,128)	4,931,749
<b>Business Activities Capital Assets -Net</b>	<b>\$ 7,230,423</b>	<b>\$ 1,400,346</b>	<b>\$ (310,442)</b>	<b>\$ 8,320,327</b>

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 5 - Reserves

The Western Lewis-Rectorville Water & Gas District is required to comply with the bond agreement of the 2007, 2001, 1988 and 1996 bond issues as follows:

**A. Sinking Fund**

On a monthly basis, the district is required to set aside an amount into a special account known as the "Western Lewis-Rectorville Water & Gas District System Bond and Interest Sinking Fund". The amount to be set aside each month shall be sums not less than the following respective amounts:

- (1) A sum equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to the Bond Issues.
- (2) A sum equal to one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance of the sinking fund reserve was \$58,710 at December 31, 2017 after payment of the November 1 debt service. Deposits were made to the Sinking fund on a monthly basis as required in (1) and (2).

**B. Depreciation Fund**

The District is required to deposit \$320 each month into the Depreciation Fund Account as well as the proceed from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and shall be withdrawn or used, upon appropriate certification to Rural Development, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. The District had set aside \$131,503. The required depreciation reserve was \$150,000 and the District had resumed the monthly deposits to meet this requirement.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 6 – Recently Issued Accounting Pronouncements

GASB Statement 65, implemented during the 2013-14 reporting year, establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources, provides changes in the determination of the major fund calculations and limiting the use of “deferred” in financial statement presentations.

GASB Statement No. 66, *Technical Corrections—2012; an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District implemented the new requirements for fiscal year 2013-2014 financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014.

Note 7- Pension Plan

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions - For the year ended December 31, 2017, plan members were required to contribute 5.00% of wages. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 7 - Pension Plan (Continued)

determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2017, participating employers contributed 19.18% for January to June and 21.48% for July through December of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the District for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2017	\$33,337	100%
2016	\$34,125	100%
2015	\$40,278	100%

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:**

At December 31, 2017, the Organization reported a net pension liability of \$466,040 from its participation in the CERS non-hazardous plan. The District does not participate in the CERS hazardous plan. The liabilities were measured at June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Organization's proportion of the net pension liability was based on a projection of the Organization's long-term share of contributions to the pension plans relative to the projected contributions of all participating members, actuarially determined.

For the year ended December 31, 2017, the Organization's reported CERS non-hazardous pension expense of \$33,681. For the year ended December 31, 2017, the District recognized deferred outflows of resources, CERS non-hazardous, \$219,947, and deferred inflows of resources, CERS non-hazardous, \$45,345.

The District previously reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$5,822. This will be recognized as pension expense as follows:

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 7 - Pension Plan (Continued)

Year	Total
2018	\$ 1,164
2019	1,164
2020	1,164
2021	1,165
2022	1,165
	\$ 5,822

*Actuarial Methods and Assumptions* - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016 and 2015. The financial reporting actuarial valuation as of June 30, 2016 and 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

	2017		2016	
	Nonhazardous		Nonhazardous	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
	of Resources	of Resources	of Resources	of Resources
Differences between expected and actual experience	\$ 5,822	\$ -	\$ 1,649	\$ -
Changes of assumptions	85,997	-	16,425	-
Net difference between projected and actual earnings on pension plan investments	54,351	-	35,502	-
Changes in proportion and differences between District contributions and proportionate share of contributions	73,777	45,345	20,005	11,664
District contributions subsequent to the measurement date	-	-	-	-
<b>Total</b>	<b>\$ 219,947</b>	<b>\$ 45,345</b>	<b>\$ 73,581</b>	<b>\$ 11,664</b>

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 7 - Pension Plan (Continued)

- Valuation date, June 30, 2015
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost Method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed
- Remaining Amortization Period – 28 years
- Asset Valuation method – 5 year smoothed market
- Inflation – 3.25%
- Salary increases, 4.00% including .75% wage inflation
- Investment rate of return – 7.50%

The rates of mortality for the period after service retirement are according to the RP-200 Combined Mortality Table with Scale BB to 2013.

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CER’s investment consultant, are summarized as follows:

Asset Class	Target Allocation	Long-term Expected Nominal Return
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Inflation Strategies)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.250%
	<u>100.0%</u>	



WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 7 - Pension Plan (Continued)

*Discount Rate* – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate or return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows or resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer’s proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2015 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

The following presents the District’s proportionate share of net pension liability calculated using the discount rate of 6.25% as well as the District’s share if calculated using a rate 1% higher and 1% lower.

	2017		
	1% Decrease	Current Discount Rate	1% Increase
	5.25%	6.25%	7.25%
District's proportionate share of net nonhazardous liability	\$ 587,778	\$ 466,040	\$ 364,208
	2016		
	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
District's proportionate share of net nonhazardous liability		\$ 303,311	

*Pension plan fiduciary net position* – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

There were no payables to the pension plan at December 31, 2017 and 2016.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 8 – Long Term Debt – The following is a summary of changes as of December 31, 2017:

	Beginning				Ending
	Balance	Additions	Reductions		Balance
\$150,000, 1988 Series A Rural					
Development Bonds, payable in					
semi-annual installments plus interest					
at 5.00%, due November 1, 2027	\$ 76,000	\$ -	\$ 5,000		\$ 71,000
\$971,000 1996 Series A Rural					
Development Bonds, payable in					
semi-annual installments plus interest					
at 4.5%, due November 1, 2036	719,000	-	21,000		698,000
\$750,000, 1996 Series B Rural					
Development Bonds, payable in					
semi-annual installments plus interest					
at 4.50%, due November 1, 2036	540,000	-	18,000		522,000
\$333,000, 2001 Rural Development					
Bonds, payable in semi-annual					
installments plus interest at					
4.50% due November 1, 2041	273,500	-	6,000		267,500
\$712,000, 2007 Rural Development					
Bonds, payable in semi-annual					
installments plus interest at					
4.37% due November 1, 2046	643,000	-	11,000		632,000
	\$ 2,251,500	\$ -	\$ 61,000		\$ 2,190,500
Less: Current Maturities	61,000				64,500
Totals	\$ 2,190,500				\$ 2,126,000

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 8 – Long Term Debt ( Continued) – The following is a summary of changes as of December 31, 2017:

The following is a schedule of long-term debt maturities:							
				Principle		Interest	
		2018	\$	64,500	\$	98,138	
		2019		67,500		95,219	
		2020		70,000		92,167	
		2021		72,500		89,002	
		2022		77,500		85,725	
		2023-2027		440,500		373,073	
		2028-2032		507,000		287,377	
		2033-2037		538,000		143,384	
		2038-204		212,000		58,115	
		2043-2047		141,000		15,707	
			\$	<u>2,190,500</u>	\$	<u>1,337,907</u>	

Note 9 – Loans Payable – The following is a summary of long term debt outstanding for the year ending December 31, 2017:

Kentucky Infrastructure Authority	
Interest Rate 0.75%	
Semi-annual payments – 06/01 and 12/01	\$865,966
Less: Current Maturities	41,401
Total	\$824,565

The original amount of the loan was \$1,266,500. Of this amount 30% of \$379,950, was forgiven.

The following is a schedule of long-term debt maturities:							
				Principle		Interest	
		2018	\$	41,401	\$	6,417	
		2019		41,712		6,106	
		2020		42,025		5,793	
		2021		42,341		5,477	
		2022		42,659		5,159	
		2023-2027		218,153		20,937	
		2028-2032		226,472		12,618	
		2033-2037		211,203		3,980	
			\$	<u>865,966</u>	\$	<u>66,487</u>	

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 10 - Subsequent Events

Consideration of the subsequent events for inclusion and disclosure in these financial statements was made through the date of the report, which is the date that the financial statements were available to be issued, and would include all relevant material circumstances and events. No subsequent events were deemed necessary to disclose.

Supplemental Schedules –



Western Lewis-Rectorville Water and Gas District  
Statement of Revenues and Expenses  
For the Year Ended December 31, 2017

<u>OPERATING REVENUE:</u>	<u>Water</u>	<u>Gas</u>	<u>Total</u>
Water and Gas Sales:			
Residential	\$ 723,740	\$ 161,244	\$ 884,984
Commerical	89,451	19,929	109,380
Service Charges and Other Revenues	<u>48,366</u>	<u>10,775</u>	<u>59,141</u>
<u>Total Operating Revenues</u>	<u>861,557</u>	<u>191,948</u>	<u>1,053,505</u>
 <u>OPERATING EXPENSES:</u>			
Salaries & Wages - Employees	231,474	24,214	255,688
Salaries & Wages - Officers & Directors	23,307	5,193	28,500
Retirement Expense	69,696	15,528	85,224
Purchased Water and Gas	71,163	142,422	213,585
Purchased Power	42,212	9,405	51,617
Chemicals and Salt	12,233	2,725	14,958
Materials and Supplies	37,594	1,147	38,741
Professional Fees	17,215	18,135	35,350
Maintenance Expense	72,963	3,989	76,952
Rental Expense	207	-	207
Insurance	81,832	14,130	95,962
Depreciation and Amortization	339,305	6,580	345,885
Utilities and Telephone	5,639	1,256	6,895
Office and Program Expense	60,311	13,437	73,748
Taxes Other Than Income	<u>20,335</u>	<u>2,127</u>	<u>22,462</u>
<u>Total Operating Expense</u>	<u>1,085,486</u>	<u>260,288</u>	<u>1,345,774</u>
 <u>OPERATING INCOME/ (LOSS):</u>	 (223,929)	 (68,340)	 (292,269)
 Non-operating income (expenses)			
Interest income	469	-	469
Gain on Sale of Assets	25,554	5,693	31,247
Tollesboro Sanitation District No.1 Fee	13,372	-	13,372
Interest expense	<u>(108,282)</u>	<u>-</u>	<u>(108,282)</u>
<u>Total Nonoperating Revenues/(Expenses)</u>	<u>(68,887)</u>	<u>5,693</u>	<u>(63,194)</u>
 <u>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</u>	 (292,816)	 (62,647)	 (355,463)
 Capital Grants	-	-	-
Customer Tap Fees	<u>22,049</u>	<u>3,600</u>	<u>25,649</u>
 Change in net position	 <u>\$ (270,767)</u>	 <u>\$ (59,047)</u>	 <u>\$ (329,814)</u>

Western Lewis-Rectorville Water Gas District  
 Supplemental Information Required by Rural Development  
 December 31, 2017

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Policy No.</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
<b>General Liability</b>			
Ky League of Cities Ins.	L5715-2017-011070	\$3,000,000	7/1/2018
<b>Public Officials</b>			
Ky League of Cities Ins	L5715-2017-15758	\$3,000,000	7/1/2018
<b>Automobile</b>			
Ky League of Cities Ins	L5715-2017-15758	\$3,000,000	7/1/2018
<b>Commerical Property</b>			
Buildings & Personal	P5715-2017-15759	\$4,833,474	7/1/2018
Equipment	P5715-2017-15759	\$135,794	7/1/2018
<b>Surety Bond</b>			
CAN Surety	69852281	\$950,000	7/1/2018
<b>Encroachment Bond</b>			
Ohio Casulaty Ins	2610369	\$65,000	11/27/2018
<b>Worker's Comp</b>			
Ky League of Cities Ins	W5715-2017-15148	\$4,000,000	7/1/2018

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2017, accounts receivable were aged as follows:

	<u>Amount</u>
Current	\$ 103,007
Over 30 days	1,866
Over 60 days	1,195
Over 90 days	365
Total	<u>\$ 106,433</u>

During 2017, the District wrote off no accounts as uncollectable, but carried a reserve for possible uncollectable accounts of \$6,300. Accounts in arrears have been collected or are covered by Deposits.

The District had a total of 3,327 customers at December 31, 2017. Of these customers, 3,054 were Residential and 273 were commercial.

Commissioners:

John Thomas, Chairman  
 Terry Thomas, Secretary  
 Robert Applegate, Treasurer  
 Robbie Joe Gantley  
 Gerald Johnson



# Caudill & Associates, CPA PLLC

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Lexington, KY 40513

Member American Institute of Certified Public Accountants  
Member American Institute of Certified Public Accountants – Not for Profit Section  
Member American Institute of Certified Public Accountants – Government Audit Quality Center

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

To the Board of Commissioners of  
Western Lewis-Rectorville Water & Gas District  
Maysville, KY 41056

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Western Lewis-Rectorville Water & Gas District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Western Lewis-Rectorville Water & Gas District’s basic financial statements, and have issued our report thereon dated July 20, 2018.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Western Lewis-Rectorville Water & Gas District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Western Lewis-Rectorville Water & Gas District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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



## **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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Caudill & Associates, CPA*

Caudill and Associates, CPA PLLC  
Certified Public Accountant

Lexington, KY  
July 20, 2018

**WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT**  
**MAYSVILLE, KY**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended December 31, 2017

**No Findings:**